



what goes around  
comes around

## VANCOUVER CITY SAVINGS CREDIT UNION

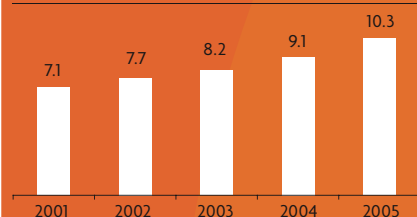
### Consolidated Financial Highlights

For the year ended December 31  
(thousands of dollars)

	2005	2004	2003	2002	2001
<b>Assets</b>					
Cash and securities	\$ 1,540,100	\$ 1,714,446	\$ 1,151,335	\$ 962,993	\$ 643,802
Loans	9,984,474	8,535,816	7,691,599	7,071,926	6,706,487
Other assets	231,745	203,503	187,127	188,911	193,033
<b>Total Assets</b>	<b>\$ 11,756,319</b>	<b>\$ 10,453,765</b>	<b>\$ 9,030,061</b>	<b>\$ 8,223,830</b>	<b>\$ 7,543,322</b>
<b>Liabilities and Members' Equity</b>					
Deposits and equity shares	\$ 10,558,155	\$ 8,950,835	\$ 8,425,665	\$ 7,610,695	\$ 6,769,834
Wholesale borrowings	458,419	813,768	2,000	53,000	250,315
Other liabilities	248,132	248,861	219,282	219,514	224,102
Retained earnings and contributed surplus	491,613	440,301	383,114	340,621	299,071
<b>Total Liabilities and Members' Equity</b>	<b>\$ 11,756,319</b>	<b>\$ 10,453,765</b>	<b>\$ 9,030,061</b>	<b>\$ 8,223,830</b>	<b>\$ 7,543,322</b>
<b>Statement of Earnings</b>					
Net interest income	\$ 272,856	\$ 255,076	\$ 249,461	\$ 230,321	\$ 178,837
Provision for credit losses	(7,525)	(9,968)	(13,324)	(32,220)	(17,141)
Other income	74,665	68,039	57,483	57,783	58,471
<b>Net interest and other income</b>	<b>339,996</b>	<b>313,147</b>	<b>293,620</b>	<b>255,884</b>	<b>220,167</b>
Salaries and employee benefits	146,982	133,330	115,803	104,285	92,745
Other operating expenses	114,613	105,062	99,847	83,933	85,260
	261,595	238,392	215,650	188,218	178,005
<b>Earnings from operations</b>	<b>78,401</b>	<b>74,755</b>	<b>77,970</b>	<b>67,666</b>	<b>42,162</b>
Unusual items	1,359	18,848	-	-	-
<b>Earnings after unusual items</b>	<b>79,760</b>	<b>93,603</b>	<b>77,970</b>	<b>67,666</b>	<b>42,162</b>
Distributions to community and members	16,626	19,578	15,719	13,625	8,999
Provision for income taxes	16,012	16,838	17,779	14,469	7,236
<b>Net Earnings for the Year</b>	<b>\$ 47,122</b>	<b>\$ 57,187</b>	<b>\$ 44,472</b>	<b>\$ 39,572</b>	<b>\$ 25,927</b>
<b>Statistics</b>					
Average Assets (thousands of dollars)	\$ 10,295,365	\$ 9,081,023	\$ 8,187,034	\$ 7,709,212	\$ 7,141,594
Total Asset Growth	12.5%	15.8%	9.8%	9.1%	9.2%
Return on Average Assets	0.46%	0.63%	0.54%	0.51%	0.36%
Return on Equity	9.6%	13.0%	11.6%	11.7%	8.7%
Dividends per Equity Share	4.5%	4.7%	4.8%	5.2%	7.2%
Dividends per Investment Share	4.5%	4.7%	4.8%	5.2%	5.3%
Membership	337,107	302,032	300,945	286,365	275,721
No. of Permanent Employees	2,340	2,050	1,916	1,706	1,622
No. of Branches	52	44	43	41	41

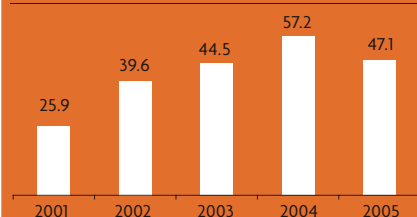
#### Average Assets

(billions of dollars)



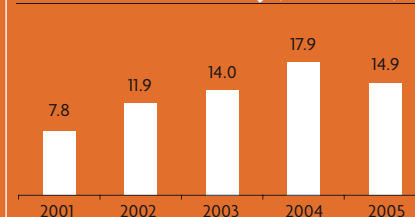
#### Net Earnings

(millions of dollars)



#### Shared Success Distributions to

Members and Community (millions of dollars)



# what goes around comes around

## **Good business is... just good business.**

We run a good business so we can do good things for our members and the community.

It's doubtful you'll find this concept in MBA textbooks, but it's the basis of our story. We believe that an integral part of being a smart provider of banking services is being a good neighbour and community leader. We just can't have one without the other.

And our members seem to feel the same way. They ask for a full range of competitive products, service that's out of the ordinary and savvy financial advice. We deliver, and they reward us with their business and their loyalty. That, in turn, allows us to do even more to help our communities thrive and prosper.

It's true what they say: what goes around really does come around.



**Glen Valley Organic Farm** is one of eight organizations that are benefiting from a loan from members' Shared Growth™ deposits. Members receive a market rate of return on their Shared Growth terms, Glen Valley received a reduced rate on its mortgage, and organic farmers like Alyson can earn a livelihood and provide more choices for local, organic food.

GLEN VALLEY ORGANIC FARMER  
Alyson Chisholm



# message from the Chair

As I was preparing this message and reflecting on our activities of the past year, it struck me that 2005 was a particularly busy year. We achieved some significant milestones and can be proud of our exceptional member growth, financial results and community impact.

## welcome and bienvenue

At our last Annual General Meeting, the membership passed a special resolution that changed how we could work with other credit unions. Called the Partnership Growth Model, it was put into action for the first time in 2005 with Squamish Credit Union. Now known as Squamish Savings, a division of Vancity, the credit union retains its unique identity, two branches and employees, but its members will have access to an expanded range of services when the technology conversion is completed in several months time. Squamish Savings will also have access to more resources, including capital, to meet the demands of a growing community.

We also welcomed Village Credit Union into the Vancity fold through a traditional merger. With four branches in the Tri-Cities and Fraser Valley and a unique French-Canadian heritage, we committed to preserving that heritage as their nearly 10,000 members officially became Vancity members.

This election marks the first time that Squamish and former Village members can vote in the Vancity Board of Directors election. Voting for the leaders of the organization is one of the attributes that differentiate credit unions from the sea of financial institutions in the marketplace. I'd like to thank all the members who took the time to vote either in branches or by mail. Your participation is very important.

## member growth

With gross member growth of 28,091, this past year marks our biggest gain for new members in decades. Part of the growth comes from our rapidly expanding youth credit union program. Demand for new youth credit unions continues at an astounding rate and, truthfully, we can barely keep up. At the end of 2005, we had 31 youth credit unions and 40 per cent of our new personal members were under 25. Welcome to everyone who joined us during the past year.

## the trophy case is brimming

Our usually low-key achievements became positively gushing with all the accolades we received from external sources in 2005. Some we're particularly proud of: being named one of Canada's Top 100 Employers and BC's Top 25 Employers, one of the Ten Best Companies to work for in 2006<sup>1</sup>, and earning Marketer of the Year<sup>2</sup>. We also were acknowledged outside Canada with a North American Sustainability Reporting Award<sup>3</sup> for our 2002-03 Accountability Report. We once again had the highest participation in the Commuter Challenge in June, our CEO Dave Mowat was named Communicator of the Year<sup>4</sup> and we received a Humour in the Workplace Award<sup>5</sup> for our piece on CBC Venture's *The Big Switcheroo*.

## green is red hot

We are proud to be involved in one of the most innovative and sustainable real estate projects in the world. Vancity Enterprises, our socially responsible real estate development arm, has moved into the first phase of development of Docksider Green in Victoria. For more information go to [docksidergreen.ca](http://docksidergreen.ca)

## get involved

In November, we gave out our fifth \$1-million award to PLEA Community Services Society of BC. This is one of two main ways – the other being the election – that members can impact the direction of the credit union, so thank you to everyone who voted for their group of choice.

As 2006 marks Vancity's 60th Anniversary year, members and staff will be seeing some exciting and innovative activities to mark this milestone. Meanwhile, thank you to everyone for your continued dedication to Vancity.

**Elain Duvall**  
Chair, Vancity Board of Directors

<sup>1</sup> Chosen by Mediapro Canada

<sup>2</sup> BCAMA (British Columbia chapter of the American Marketing Association)

<sup>3</sup> Association of Chartered Certified Accountants (ACCA) and CERES

<sup>4</sup> International Association of Business Communicators – BC Chapter

<sup>5</sup> Rock, Paper, Scissors comedy and training troupe

# message from the CEO



2005 was a banner year for Vancity, with record member growth, record loan and deposit growth and solid financial results. We've launched an exciting partnership model for mergers that has increased the scope and reach of the Vancity family. While we've benefited from the robust B.C. economy and incredibly loyal members, our momentum is being sustained by the inextricable connection between smart business and good corporate citizenship.

## cause and effect

It's like the expression "what goes around comes around." Over and over again our members tell us that they want great prices (and they get them) and that what we do for the community doubles their satisfaction. That creates the loop – their business translates into a strong bottom line, which allows us to give back more to our members and community, and so on. Creating value for members and the community has driven our business model for the last 60 years and, in a sea of sameness, is our key differentiator from other financial institutions.

## the numbers

Consolidated earnings from operations were \$79.8 million, compared to 2004's \$93.6 million. Though seemingly lower, accounting rule changes in 2004 resulted in a significant one-time lift of \$18.8 million to the bottom line. The big news is in our volumes. Our members doubled our loan volume in two years and, despite this incredible pace, our "top box" member satisfaction score – the number of members who rate our service at five out of five – increased to 42 per cent. That is something we are immensely proud of and our staff have worked incredibly hard to keep up with the demand.

## new members

The power of word of mouth continues to build Vancity as members keep referring friends and family – in 2005 13 per cent of our new membership came through referrals. As well, our partnership growth merger model and growing appeal to youth all speak to the vitality of Vancity.

In fact, our member growth rate exceeded the pace of population growth in British Columbia/Lower Mainland. What's particularly notable is we didn't just grow the number of members, we also grew the amount of financial services each member did with us. That's important for Vancity's long-term financial health and a testament to the growing relationship our members have with their credit union.

## supporting the business sector

We all know that small business is the backbone of our economy, and our business banking team have been going great guns. The team has grown from about 40 staff five years ago to about 120 today to keep up with the number of businesses that are turning to Vancity for their banking needs. Between loans outstanding and funds on deposit, small business now accounts for more than \$2 billion at Vancity.

## a shift in our structure

The best time to change is when you're at the top of your game. Late in 2005, we made some changes in our structure to streamline, foster innovation and integrate community leadership across the Vancity Group of Companies. With a Chief Operating Officer and an expanded senior leadership team, Vancity heads into our 60th Anniversary year supported by a strong economy and great members. Thank you for your patronage. It is your business that makes Vancity what it is.

**Dave Mowat**  
Chief Executive Officer

net earnings from  
operations: **\$47.1** million

**\$14.9** million will go to  
members and community

Each year, businesses in this country pump out more than 35 per cent of the greenhouse gases that speed up climate change. Vancity CEO Dave Mowat and COO Ian Warner have committed to going “carbon neutral” and setting an example for other leaders. Dave traded in his Audi for a hybrid car, and Ian can often be seen on public transit and carpooling. What can't be reduced will be offset by investing in local projects that reduce the amount of carbon in the air.

VANCITY CEO Dave Mowat, COO Ian Warner



## when we do well, you do well

Sure, we make a profit. But we also return some 30 per cent of net profits to members and the community through our Shared Success program. The more business you do with us, the bigger your Shared Success payout. In fact, since 2001, the number of members who have received \$100 or more has increased five fold – just by consolidating their financial services at Vancity.

Of the \$14.9 million designated for the program, \$8.6 million goes to the membership through patronage rebates and member share dividends, and \$6.3 million goes to community groups through our granting programs. (For a full report on our granting program and where the \$6.3 million will go, see page 16.)

## partnership: a new model for growth

Last year, members voted to change our rules to allow for a unique partnership approach to credit union mergers. This is a prime example of how a partnership between a larger credit union and a strong independent credit union – like Squamish Credit Union – can benefit both organizations, not to mention their members and communities.

The merger took legal effect on December 31, creating Squamish Savings, a division of Vancity. Squamish Savings will operate independently and retain a Partner Board, but will benefit from Vancity's technology and administration functions. By mid-2006, members can be served through either organization.

With the 2010 Olympic Games only a few years away, there's no question that Squamish is poised for big things. Thanks to the partnership model, both organizations are ready to capitalize on that growth.

## mytreat: an innovative and accessible gift card for every occasion

We were first out of the gate with a one-of-a-kind prepaid VISA\* card that can be used by anyone, purchased by anyone and used almost everywhere VISA is accepted.

Available only at Vancity branches, the mytreat VISA prepaid card requires no credit checks and with a load fee of only \$2, the card can be loaded with any value between \$25 and \$500.

The mytreat VISA gift card makes a great gift since it gives the recipient the freedom to choose exactly what they want – from shopping online, to a special pair of shoes, to renting a DVD. A reloadable version of the Vancity VISA gift card will be available in 2006. [vancity.com/mytreat](http://vancity.com/mytreat)

\* VISA Int./Vancity, Licensed User

## actions speak louder than dollars

Being a community leader is so much more than being a philanthropist. We view it as leading by example for other organizations, and using our resources and expertise to affect positive change.

What does it all *really* mean? In real terms, we focus on activities where we have the most impact – providing access to financial services, addressing climate change, building strong non-profits and co-operatives and successful social enterprises. We're particularly proud of Vancity CEO Dave Mowat and COO Ian Warner's commitment to go carbon neutral, and how they are challenging other leaders to do the same. Corporately, we're aiming to be carbon neutral by 2010. We're also focused on keeping financial services accessible and teaching low-income citizens and new immigrants about financial literacy (see page 10).

In 2005, we were recognized for our outstanding accountability reporting by CERES ([ceres.org](http://ceres.org)) and the Association of Chartered Certified Accountants (ACCA). Vancity's 2002-03 Accountability Report was one of four recognized in North America, placing just behind Hewlett-Packard. The report was also rated number 1 in Canada by Stratos. Our 2004-05 report will be released in summer 2006.

## tackling social issues with a business approach

Imagine you're a non-profit organization, with a mission to address serious social issues in our community, yet relentlessly squeezed by funding cuts and tirelessly scrambling for that ever-shrinking funding dollar. Now imagine you are running a small business, trying to satisfy increasingly demanding customers with market forces constantly affecting your financial bottom line. Trying to combine these seems a formidable challenge.

For years, Vancity has been working with a broad range of community partners to help find new creative ways to fund programs, create jobs and provide important goods and services to the community. In 2005, Vancity joined forces with BC Technology Social Venture Partners and Vancouver Foundation to help some of the successful social enterprises continue to expand through the establishment of the BC Social Enterprise Fund. In the fall of 2005, a fund of \$270,000 was created for investment in promising social enterprises to help them move to the next level of business growth and to scale up their social impacts. The fund not only provided financial help, but also matched recipients with some of Vancouver's most well-respected business leaders for support.

The result? Consumers get products and services they want and need, non-profits gain valuable business acumen, the people who need help get it, and we are all richer for it.

## values-based financial services

One component of being a good financial partner is giving members the option to exercise their social and environmental muscles through the products and services they use.

We provide product options for our members to do just that. With our Bright Ideas home financing program, members can renovate their home to make it more energy efficient and save money too. With loans at Prime, cash back for EnerGuide evaluations, and the federal EnerGuide for Houses grant, you can make it easier on the environment and your wallet. [vancity.com/brightideas](http://vancity.com/brightideas)

Shared World and Shared Growth™ term deposits were revamped to be better for depositors. Both term deposits now pay market rates and funds are lent to local organizations and distributed to 15 international community loan funds. [vancity.com/sharedgrowth](http://vancity.com/sharedgrowth)  
[vancity.com/sharedworld](http://vancity.com/sharedworld)

Once a small operation spawned from a provincial government agency, JR Labs is now one of the leading food and natural health product testing labs in Canada. With business loans from Vancity Credit Union and venture financing from Vancity Capital, JR Labs now has 70 employees and offices in Vancouver, Halifax, Toronto, and Beijing.

VANCITY MEMBERS Jimmy Chang and Ray Cheung



a simple program to help  
kids learn about banking:  
**2,750** youth members  
**\$1.3** million on deposit

**91%** of employees say what Vancity does for the community and environment makes them feel good about working here

employee turnover is only **7%**

Vancity branches should be inviting and warm – unmistakably Vancity. We took some big steps towards updating our interior spaces to reflect our identity. Many branches not only have new signage and elements such as community walls and “story” windows, but also are clear representations of the unique neighbourhoods where they’re located.

Downtown Community Branch



## satisfied employees mean satisfied members

Creating a great place to work is not only the right thing to do, but also makes good business sense. Employees who understand the value of their work, are recognized for their efforts, and feel a greater connection between their jobs and the community are the same ones who provide outstanding service to our members. In turn, our members are more satisfied with Vancity and are more likely to recommend us to their friends and family.

We want employees to grow, develop and achieve their full potential. Programs such as tuition reimbursement, assistance with designing a unique personal development plan, and choices in health insurance packages all help them get there. And, our wellness programs help them take responsibility for their own health and wellness.

We say thanks for a job well done through an online recognition tool and an annual Recognition Night. All of these programs and others have helped Vancity achieve an employee engagement score of 76%, putting us in the “best employer zone” based on the Hewitt Associates model for North America’s top employers. (For more information on what an employee engagement score is, please see page 14.)

It’s not just our employees who rate us highly. Vancity is consistently named on many top employer lists, including: Maclean’s Top 100 Employers in Canada, BC’s Top 25 Employers, the Financial Post Top 10 Companies to Work for in Canada and Canadian Business Magazine’s Most Admired Corporate Cultures. And with nearly 1000 unsolicited employment applications a month, it seems other people think so too.

## turning brown into green

A year ago, Dockside was a 15-acre former industrial site near Victoria’s harbour. Today, it’s the beginning of one of the world’s most innovative sustainable developments.

A partnership between Vancity Enterprises and Windmill Developments, Dockside Green will transform the harbourfront land in Victoria into a one-of-a-kind-in-the-world community with residential, hotel, retail, office and light industrial uses. Dockside Green will incorporate the very highest green standards. The goal is to achieve a LEED Platinum certification – a first in the world for this kind of project.

Once complete, this \$350 million project will have 26 buildings with 1.3 million square feet and 2,500 people.

Interest has been strong since registration opened in early 2005, with 1,900 potential buyers registering and 300 putting a deposit on a suite. In December of the same year, the presentation centre was opened and sales for Synergy, the project’s first phase, brought a rush of demand with some suite types selling out quickly. To support Vancity members, a special ‘green’ mortgage was developed by Vancity for Dockside purchasers. The first residential building is expected to be complete by the end of 2007. [docksidegreen.ca](http://docksidegreen.ca)

## an outpouring of support

In immediate reaction to the tsunami that hit Southeast Asia in December 2004, Vancity provided a \$25,000 donation and agreed to match member donations up to a further \$75,000. It only took a few days to reach the \$75,000 target, but members kept giving. In the end Oxfam Canada received \$335,501 from Vancity and members to assist with rebuilding in the affected regions.

In response to concern for the victims of the tsunami, Vancity will provide \$480,000 over two years through long-term partnerships with the Canadian Co-operative Association (CCA) and MATCH International to help rebuild parts of Southeast Asia devastated by the disaster.

## earning your business by earning your trust

The pinnacle in service is operating in the member's best interest, not our own. We do this by routinely examining member accounts and if appropriate suggest another account package if they are paying too much in service fees, or make suggestions for consolidating deposits or saving on interest charges. One simple step we took was to rewrite many of our forms and letters to use more straightforward language.

Some of our best work is in the area of privacy and security. We regularly share information with our members on how they can protect their personal information and how we're committed to protecting their personal and financial data.

In early 2006, Vancity was named one of the 10 Most Trusted Companies for Privacy in Canada\*, moving up two spots to fifth place. (We surprised even the authors of the study when we first appeared on the list last year. As it was a national survey, they hadn't even heard of Vancity.) While privacy is important in terms of legislation compliance, it presents an opportunity

for building trust with our members. The stronger our relationship with our members, the better we can meet their needs.

In 2005, we partnered with Microsoft to bring cutting-edge security information to the public through our website. It's not just about online banking security – there's information on a range of ways to protect your family and children, from recognizing online predators to educating yourself about “phishing” scams, spoof emails and worms. Go to [vancity.com/privacy](http://vancity.com/privacy) to learn more.

## financial lit 101

While most of us could stand to learn a little more about the workings of mortgages or term deposits, the lack of basic financial knowledge – particularly among low-income or new immigrant groups – can put some people at a serious economic disadvantage.

Through a partnership with Family Services of Greater Vancouver (FSGV), we're providing nearly \$300,000 over three years to fund financial literacy workshops to teach people about budgeting, borrowing, saving and basic banking services. In 2006, FSGV will deliver more than 40 workshops (versus 14 in 2005) through community centres and non-profit organizations so attendees can build economic self-reliance through learning the basics such as RRSPs, how to use ATMs,

how to keep service fees to a minimum and when to use or not use credit. The payoff for them is they learn their financial goals don't have to be out of reach. We win because, if participants choose to join Vancity, they are more knowledgeable members, are able to use more products and services and have fewer financial risks.

## new locations, new members, new options

The merger with Village Credit Union means that Vancity members (and former Village members) have new places to do face-to-face banking. Once the conversion was completed in December 2005, the nearly 10,000 former Village members became integrated members of Vancity and had full access to all 46 branches.

New branches are in Port Coquitlam, Heritage Mountain in Port Moody, and Maillardville in Coquitlam. A fourth branch located across the street from the existing Vancity branch in Chilliwack has been converted to offices for our branch specialists and administration.

\* Study conducted by Carlson Marketing and the Ponemon Institute.

Filmmakers and cinephiles alike got a boost in 2005 with the opening of the Vancity Theatre. The 175-seat theatre, located at 1181 Seymour Street in the new Vancouver International Film Centre, shows regular screenings of both international and local films, while providing a state-of-the-art facility to foster the art of cinema through special events, education, and demonstrations of film, video and other new media.



86%<sup>1</sup> of personal members  
are satisfied with Vancity

A record **24,846**<sup>2</sup> new members  
walked through our doors, many  
of whom came through a referral

<sup>1</sup> 83% of business members are satisfied with Vancity

<sup>2</sup> not including 3,245 new business members

## Vancity's Key Performance Indicators

### Accountability reporting at the Vancity Group of Companies

Vancity and Citizens Bank of Canada have been separately reporting on their economic, social and environmental performance for several years. In 2005, we decided to transition to one, enterprise-wide accountability report covering the entire Group of Companies. Accountability reporting is about more than just keeping you informed about how we're living up to our values and responsibilities. It's about getting better.

The information that follows provides a snapshot of our performance over 2003-2005. Progress made against our key performance measures is indicated by the following:

- = performance is stable
- ▲ = performance has improved since 2003
- ▼ = performance has worsened since 2003

This data has yet to be verified. For a fuller picture of our economic, social and environmental performance, watch out for our externally verified 2004-05 Accountability Report to be released in summer 2006. This report will include data, key issues, stories, the views of our employees and members, and plans to improve performance. It also includes a new section on governance and risk management.

Our reports are widely recognized for their comprehensiveness and credibility. In fact, we've received several awards for our accountability reports to date. We hope that our success and the positive impact reporting has on our business inspires other organizations to follow our lead.

To view Vancity's 2002-03 Accountability Report, visit [vancity.com/accountability03](http://vancity.com/accountability03). To view Citizens Bank's 2003 Accountability Report, visit [citizensbank.ca/accountability](http://citizensbank.ca/accountability).

### A framework for doing business responsibly

It's important that we have policies and processes in place to guide decision-making and help us to stay true to our values. Our Group of Companies is guided by the values of integrity, innovation and responsibility. The Vancity Group of Companies is also guided by a Statement of Values and Commitments. The Statement was created in 2000 with the input of members, employees and communities. It sets out our mission, purpose, values and six commitments that provide a framework for doing business.

Both Vancity and Citizens Bank have ethical policies to guide and define business relationships. The Bank's ethical policy was introduced in 1998 and Vancity developed its baseline ethical policy in 2002. In early 2006, these two policies were brought together. We now have one, overarching ethical policy to guide decisions across our Group of Companies and ensure our business relationships are consistent with our values. Implementation of the merged ethical policy is in progress.

All employees and Directors are required to sign a Standards of Business Conduct policy to help ensure we model a high standard of business ethics.

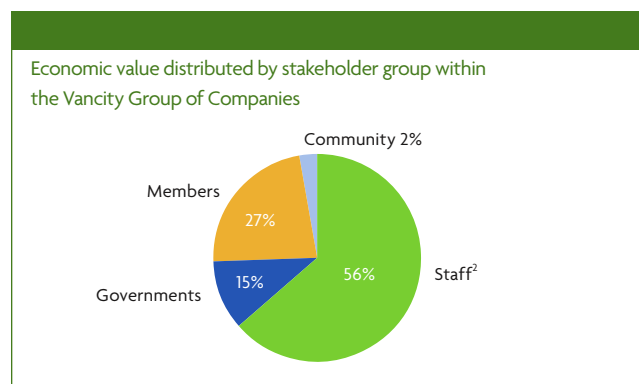
## Summary of our performance over 2003-2005

### RESPONSIBLE AND EFFECTIVE FINANCIAL MANAGERS

For a summary of our financial performance, please refer to the consolidated financial highlights on the inside front cover.

2005 economic value added (thousands of dollars)	
Net revenue <sup>1</sup>	\$ 363,227
Less externally purchased goods and services	(108,188)
<b>Total economic value added</b>	<b>\$ 255,039</b>

<sup>1</sup> includes net interest and other income and unusual items



<sup>2</sup> includes earned salaries and benefits

### PROVIDING OUTSTANDING SERVICE AND HELPING MEMBERS ACHIEVE THEIR FINANCIAL GOALS

Measure	Company	2005	2004	2003	Performance	Comments
Members overall satisfaction with service	Vancity: Personal Business	86% 83%	85% 78%	84% 79%	■ ▲	Personal members: 2008 target: 41% of members totally satisfied. 2005 result: 42%. Target exceeded.  Business members: 2008 target: 37% of members totally satisfied. 2005 result: 37%. Target met.
	Citizens Bank	85%	84%	79%	▲	2008 target: 45% of members totally satisfied. 2005 result: 39%. On track to meet target.
Clients overall satisfaction with service	Vancity Insurance Services	73%	69%	71%	■	Satisfaction remains steady.
Members satisfaction with complaint handling	Vancity: Personal Business	47% 48%	52% 49%	49% 32%	■ ▲	2008 target (personal members): 75%. Not on track to meet target.
	Citizens Bank	51%	52%	48%	▲	

## PROVIDING MEMBERS WITH MEANINGFUL OPPORTUNITIES FOR INPUT

Measure	Company	2005	2004	2003	Performance	Comments
Members' satisfaction that Vancity provides meaningful opportunities for them to have input in setting the direction of the credit union	Vancity: Personal Business	48% 47%	51% 38%	49% 52%	■ ▼	One of the reasons results are low is the high percentage of members who respond "don't know" or "not applicable": 34% of retail members (25% in 2004) and 35% of business members (25% in 2004).  Research during 2004-05 indicates that most members believe it's more important that members generally have opportunities to set the direction, than for them personally to be actively involved in doing so.
Members who vote in Board elections: # who voted % of eligible membership	Vancity	15,323 6.3%	11,924 5.2%	12,152 5.6%	▲ ▲	Increase in participation can likely be attributed to mailing ballots to all eligible members in 2005.  Top three reasons why members don't vote (2005) remain the same as previous years: too busy/not enough time; didn't have any/enough information about the candidates; doesn't affect me/don't care.

## ENSURING OUR GROUP OF COMPANIES IS A GREAT PLACE TO WORK

Measure	Company	2005	2004	2003	Performance	Comments
Employee Engagement Index (Comprises six key questions designed to measure the state of intellectual and emotional involvement employees have in the organization)	Vancity	76%	77%	75%	■	Employee engagement remains strong. Our 2005 score is close to the average engagement score of the 50 Best Employers in Canada <sup>1</sup> (78%).  2008 target: 80% (up for review in business planning process).
	Citizens Bank	63%	71%	55%	▲	Employee engagement has increased significantly since 2003 as a result of both corporate and departmental initiatives.  The lower results in 2005 compared to 2004 were due in large part to capacity and resourcing challenges within various departments. 2008 target: 75%
Employee turnover	Vancity	7%	8%	9%	▲	Turnover has declined steadily, likely attributable to high engagement scores.
	Citizens Bank	13%	11%	9%	▼	Turnover has increased since 2003, for a variety of reasons including more managed attrition and opportunities for advancement elsewhere in the Group of Companies and externally.
Percentage employees strongly agree/agree <sup>2</sup> that the balance between their work and personal commitments is right for them	Vancity	64%	65%	64%	■	Performance has remained stable.  We continue to offer flexible work arrangements and wellness programs to support staff to maintain a healthy balance between their work and personal commitments.
	Citizens Bank	63%	74%	65%	■	High workloads remain an issue throughout the organization and one we hope to address through improved planning and prioritization.

<sup>1</sup> The 50 Best Employers in Canada list is produced by Hewitt Associates, a human resources outsourcing and consulting firm.

<sup>2</sup> Results exclude the percentage of employees who slightly agree.

## LEADING BY EXAMPLE AND EFFECTING POSITIVE CHANGE IN OUR COMMUNITIES

Measure	Company	2005	2004	2003	Performance	Comments
Member/client investments in socially responsible investment options (millions of dollars)	Group of Companies	\$395.2	\$364.2	\$331.8	▲	2005 data includes investments at Citizens Bank. Investments in all areas showed increases in 2005. Visit <a href="http://vancity.com/personal/investing/sociallyresponsible">vancity.com/personal/investing/sociallyresponsible</a> for more information on socially responsible investing options at Vancity.
Employees satisfaction that what Vancity/Citizens Bank does for the community and environment makes them feel good about working here	Vancity	91%	90%	85%	▲	Consistently high results.
	Citizens Bank	72%	74%	61%	▲	Programs continue to develop in these areas.
Members satisfaction that what Vancity/Citizens Bank does for the community and environment makes them feel good about being a member	Vancity: Personal Business	77% 78%	73% 68%	70% 76%	▲ ▲	Data from 2004 Annual Report restated. An additional 8% of personal members responded "don't know" or "not applicable" (8% in 2004). An additional 6% of business members responded "don't know" or "not applicable" (8% in 2004).
	Citizens Bank	66%	n/a	n/a	n/a	An additional 16% of members responded "don't know" or "not applicable". Question not asked in 2004 or 2003.
CO <sub>2</sub> equivalent emissions (metric tonnes)	Group of Companies					New measure for 2005.
Premises energy consumption		1,258	n/a	n/a	n/a	Premises energy consumption based on actual and estimated data to provide a complete picture.
Paper consumption		n/a	n/a	n/a	n/a	Emissions due to paper consumption will be available in the 2004-05 Accountability Report.
Employee business travel		18	n/a	n/a	n/a	Business travel based on travel by Vancity and Citizens Bank CEOs only.
Employee commuting by single occupancy vehicle		19,794	n/a	n/a	n/a	
Corporate donations (cash in millions): % average previous three years pre-tax consolidated earnings	Group of Companies	\$6.3 10%	\$7.4 15%	\$5.9 15%	■	Data from 2003 and 2004 Annual Report restated. Significantly higher than Imagine Canada's benchmark of donating 1% of average previous three year domestic pre-tax profits to charity. Drop in percentage in 2005 is due to exceptionally high profits in 2004 due to a one-time accounting change. Donations amount is set by the Board and is based on net earnings.

## An introduction to our community leadership strategy

In the fall of 2004, Vancity's Board approved our 2005-2008 Community Leadership Strategic Plan to guide how we'll meet our commitment to "lead by example and use our resources and expertise to effect positive change in our communities."

The strategy is organized around three pillars: environmental sustainability, social sustainability, and accountability, each with a number of initiatives that involve business units across the Group of Companies, including the Sustainability Group, Community Business Banking, Citizens Bank, the Vancity Community Foundation, Vancity Capital and Vancity Enterprises. The accountability initiatives include ethical policy implementation and accountability reporting. Social and environmental initiatives are divided into four focus areas where we hope to achieve measurable outcomes:

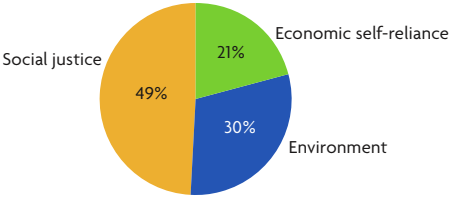
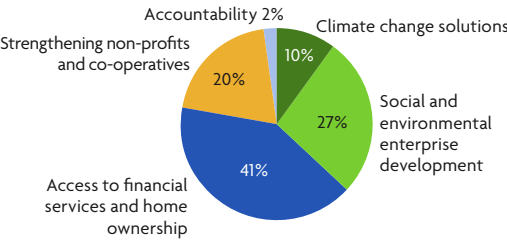
- Advancing climate change solutions
- Increasing access to financial services and home ownership
- Strengthening non-profits and co-operatives, including building real estate assets
- Building successful social and environmental enterprises. Social and environmental enterprises are businesses that earn revenue while achieving social and environmental goals.

The information below provides a high-level summary of the outcomes of our activities in these four areas. For each area, we've developed key performance indicators around access to credit, savings and deposits, grants, and additional services and assistance. For more information, we invite you to read our 2004-05 Accountability Report, to be released in summer 2006.

## Advancing climate change solutions

Access to credit	Grants	Additional services and assistance
<p>63 Clean Air Car Loans (low interest loans to buy a hybrid or natural gas vehicle) were approved in 2005, for a total value of \$1.9 million. This will result in reduction of greenhouse gas emissions of almost 600 tonnes over the lifetime of the vehicles.</p> <p>31 members participated in our Bright Ideas Home Financing Program (financing for energy efficient home renovations). 24 of these received loans, seven received cash back to cover the cost of having a home energy audit. Total greenhouse gas emissions reduction is estimated at 1,700 tonnes over the lifetime of the renovations (estimated at 20 years).</p>	<p>Six grants were given through the Green Building Grants Program for a total of \$175,000.</p> <p>\$303,500 was awarded through the Strategic Grant Program in support of Climate Change Solutions.</p>	<p>Eco-Efficiency Seminars held in 2005:</p> <ul style="list-style-type: none"> <li>• Eco-Efficiency 101</li> <li>• Sustainable Purchasing</li> <li>• Intro to LEAN Manufacturing</li> <li>• Sustainable Business Forum</li> </ul> <p>The seminars had 144 participants, with the majority (over 80%) rating their satisfaction with the seminars as very good or excellent.</p> <p>Energy Retrofit Pilot: 18 business members underwent Power Smart Lighting Assessments due to Vancity staff referrals. Average annual savings in electricity per business was estimated at over \$1,500, with an average greenhouse gas savings of 11.7 tonnes.</p> <p>Greenhouse gas emission reductions for 2004-05 from the Vancity-sponsored U-Pass program at the University of British Columbia and Simon Fraser University are estimated at 11,000 tonnes.</p> <p>The following green developments were developed and financed by Vancity Enterprises over 2005:</p> <p>Verdant @ UniverCity</p> <ul style="list-style-type: none"> <li>• 60-unit stacked townhouse residential project under construction at SFU's new sustainable residential community, UniverCity.</li> <li>• Being developed in partnership with SFU Community Trust, and in co-operation with SFU Childcare Society.</li> <li>• Units will consume 60% less energy, 40% less water and produce one-third the greenhouse gas emissions of typical residential units. Residents will be given TransLink's C-Pass.</li> </ul> <p>Dockside Green, Victoria, BC</p> <ul style="list-style-type: none"> <li>• 26 buildings to be built over eight to 10 years for residential, and commercial/industrial uses.</li> <li>• Being developed in partnership with Windmill Developments and the City of Victoria, and in co-operation with Vic West Community Association, Capital Bike and Walk Society, Songhees &amp; Esquimalt First Nations.</li> <li>• Units will consume 60% less energy and 60% less water than typical residential units. The project will be greenhouse gas neutral.</li> </ul> <p>Montage at Collingwood Village, Vancouver, BC</p> <ul style="list-style-type: none"> <li>• 59 residential units in a single 4-storey wood-framed apartment building.</li> <li>• Developed in co-operation with Vancouver Resource Society.</li> </ul>

## Strengthening non-profits and co-operatives

Access to credit	Savings and deposits	Grants	Additional services and assistance																				
<p>\$33.2 million in loans, mortgages, other credit products were approved for 61 non-profits and co-operatives in 2005.</p>	<p>84 new deposits were made by non-profits or co-operatives in 2005 (includes new deposit accounts, pooled funds, investment accounts). Value: \$147.4 million.</p> <p>As at May 31, 2005, there were a total of 64 named funds administered by the Vancity Community Foundation, 18 of which belong to non-profit organizations. Named funds are donations made by individuals or organizations that are invested by the Foundation and which generate income for charitable purposes.</p>	<p>196 non-profits were supported by Vancity through grant programs in 2005, totalling \$6.1 million, as follows:</p> <p><b>Responsive grants by guiding principle (\$1.1 million):</b></p>  <table border="1"> <caption>Responsive grants by guiding principle (\$1.1 million)</caption> <thead> <tr> <th>Guiding Principle</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Social justice</td> <td>49%</td> </tr> <tr> <td>Environment</td> <td>30%</td> </tr> <tr> <td>Economic self-reliance</td> <td>21%</td> </tr> </tbody> </table> <p><b>Strategic grants by community leadership focus area (\$2.9 million)</b></p>  <table border="1"> <caption>Strategic grants by community leadership focus area (\$2.9 million)</caption> <thead> <tr> <th>Community Leadership Focus Area</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Access to financial services and home ownership</td> <td>41%</td> </tr> <tr> <td>Social and environmental enterprise development</td> <td>27%</td> </tr> <tr> <td>Strengthening non-profits and co-operatives</td> <td>20%</td> </tr> <tr> <td>Climate change solutions</td> <td>10%</td> </tr> <tr> <td>Accountability</td> <td>2%</td> </tr> </tbody> </table> <p><b>Special purpose grants (\$2.1 million):</b> Includes enviroFund™, student awards, Green Building grants, Vancity \$1 Million Award and others.</p> <p>Between June 1, 2004 – May 31, 2005, named fund holders at the Vancity Community Foundation granted almost \$300,000 to the community.</p> <p>Over the same period, the Foundation granted \$182,500 to community groups to support community economic development.</p>	Guiding Principle	Percentage	Social justice	49%	Environment	30%	Economic self-reliance	21%	Community Leadership Focus Area	Percentage	Access to financial services and home ownership	41%	Social and environmental enterprise development	27%	Strengthening non-profits and co-operatives	20%	Climate change solutions	10%	Accountability	2%	<p>Workshops delivered to 213 participants from non-profits and co-operatives in 2005 included:</p> <ul style="list-style-type: none"> <li>Financial Sustainability Workshop Series: eight workshops delivered in partnership with Volunteer Vancouver, United Way and Volunteer Victoria – Vancouver and Victoria</li> <li>Financial Sustainability – Whistler</li> <li>Check-up for Charities – Vancouver</li> <li>Leveraging Your Assets delivered in partnership with BC Association for Community Living Annual Conference – Richmond</li> </ul>
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™ enviroFund is a registered trademark of Vancity Credit Union.

## Social and environmental enterprise development

Access to credit	Grants	Additional services and assistance
<p>Eight new loans were approved by Vancity Capital in 2005 for the amount of \$2.5 million for social and environmental enterprise development.</p>	<p>In 2005, the Vancity Community Foundation facilitated and administered the following grants through Vancity's Strategic Grant Program:</p> <ul style="list-style-type: none"> <li>• 16 grants to social and environmental enterprises totalling \$591K</li> <li>• Four strategic grants for social and environmental sector building initiatives, totalling \$154K</li> </ul> <p>During their fiscal year June 1, 2004 – May 31, 2005, the Vancity Community Foundation also granted \$145K to 25 organizations to support social and environmental enterprise development through the Enterprising Non-Profits Program, a collaborative funding program.</p>	<p>The Enterprising Non-Profits Program conducted two orientation sessions for non-profits who are planning social enterprises. In day-long sessions in Vancouver and Abbotsford, 88 participants representing 54 organizations received an introduction to social enterprise development and planning.</p> <p>The Enterprising Non-Profits program published the Canadian Social Enterprise Guide with funding support from Vancity and others. This extensive resource guide is an essential tool for those non-profits or co-operatives starting or expanding a social enterprise.</p> <p>The Vancity Community Foundation, in conjunction with social enterprises and a national advisory group, conducted the feasibility phase of a social impact assessment project. The next stage will be the development of a social enterprise assessment framework for social enterprises and investors.</p>

## Access to financial services and home ownership

Access to credit	Savings and Deposits	Grants	Additional services and assistance
<p>\$3.7 million in credit was provided to just under 3,700 members through specialized Vancity services and community partnerships (includes our secured VISA product and micro-financing: Peer Lending, Self Reliance Loans, ABLED and MOSAIC Immigrant Loan Program).</p> <p>81% of low-income members and 64% of micro-finance business members agree Vancity provides them with the range of products and services that meet their needs.</p>	<p>As of December 31, 2005, Pigeon Park Savings had 2,443 members. Pigeon Park provides financial services to Downtown Eastside residents. The branch is run and operated by employees from PHS Community Services Society and supported by Vancity's banking infrastructure.</p> <p>Vancity opened accounts for 1,723 members through our Resettlement Assistance Program.</p> <p>109 individuals participated in our matched savings accounts programs to save for: home ownership, business start-up or expansion for self-employment, education and training. The value of savings by the 79 graduates of the programs was over \$29K, and matching grants earned were over \$88K.</p>	<p>\$1.2 million was awarded through the Strategic Grant Program in support of providing access to financial services and affordable home ownership.</p>	<p>14 specialized financial literacy workshops delivered by Family Services of Greater Vancouver with support from Vancity provided 187 participants with basic financial education/advice in 2005.</p>

### DEFINITIONS:

**Vancity companies:** Vancouver City Savings Credit Union (Vancity), Vancity Insurance Services Ltd, Vancity Capital Corporation, Vancity Enterprises Ltd, Vancity Investment Management Ltd, Inhance Investment Management Inc (formerly Real Assets Investment Management Inc), Inventure Solutions Inc, and the Vancity Community Foundation.

**Vancity:** Vancouver City Savings Credit Union.

**Citizens Bank /The Bank:** Citizens Bank of Canada, a wholly owned subsidiary of Vancity.

**Group of Companies:** All companies, including Citizens Bank.

## financial review

This section of the Annual Report provides management's discussion and analysis of Vancity's financial condition and results of operations as well as capital and asset liability management. This information will enable the reader to assess material changes in financial condition and operations for the year ended December 31, 2005 compared to the previous year, and is intended to supplement the data presented in the audited financial statements. Our discussion will refer to notes to the financial statements and the tables presented in the following section.

### OVERVIEW

Vancity is Canada's largest credit union, with \$11.8 billion in assets, more than 335,000 members and 52\* branches throughout Greater Vancouver, the Fraser Valley, Squamish and Victoria. Vancity owns Citizens Bank of Canada, serving members across the country by telephone, ATM and the Internet. In 2005, Vancity acquired the assets and assumed the liabilities of Village Credit Union and Squamish Credit Union as a result of two business combinations. Unless otherwise specified, all information is consolidated data of Vancity and its subsidiaries.

In 2005, Vancity consolidated earnings from operations before unusual items were \$78.4 million compared to \$74.8 million in 2004. Continued revenue growth, mainly as a result of member loan and deposit growth, combined with the ongoing favourable interest rate environment contributed to the strong earnings in 2005. Operating earnings for the Credit Union itself were \$74.3 million, up from \$71.0 million in 2004. Citizens Bank earnings from operations for 2005 came in at \$4.1 million, higher than the \$3.8 million from the previous year. The earnings related to the entities acquired in the business combinations were offset by their related transition costs.

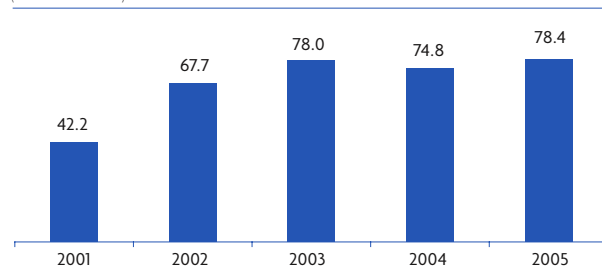
Consolidated net earnings for the Vancity Group of Companies was \$47.1 million, \$10.1 million lower than last year. The decrease from 2004 was primarily due to the one-time accounting change that added to earnings in the prior year. The 2005 earnings are after distributions to community and members of \$16.6 million that includes the \$1.0 million Vancity Award. In total, distributions to community and members (including investment share dividends) were 35.3% of net earnings, demonstrating Vancity's ongoing commitment to share its success with the community and members. Return on equity for 2005 was 9.6% while return on average assets came in at 46 basis points (2004: 13.0% and 63 basis points respectively), again lower than the prior year due to the one-time item that increased 2004 earnings.

The continuing success of Vancity was driven by a growing economy, still-low interest rates by historic standards, high employment levels, a continuing strong residential housing market that pushed loan volumes to record levels and a record number of new members joining Vancity in 2005. A net number of 35,000 members joined Vancity in 2005, approximately one-third of which were from the two business combinations. Lower loan write offs and recoveries of past losses also helped Vancity maintain its strong margins.

During 2005, Vancity's consolidated assets grew \$1.3 billion to a total of \$11.8 billion. Most of the increase arose from organic growth while approximately \$200 million resulted from the two business combinations. The overall growth represents an increase of 12.5% and compares to 2004 growth of \$1.4 billion or 15.8%. Consolidated deposits of \$10.6 billion at the end of 2005 reflect an increase of \$1.6 billion or 18.0%. Gross loans (before mortgage sales for liquidity management) of \$10.5 billion have increased by \$1.4 billion or 15.5%. Assets under administration of \$1.4 billion have grown

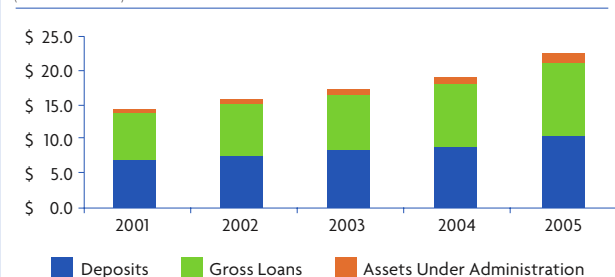
### Earnings from Operations before Unusual Items

(millions of dollars)



### Funds and Assets under Administration

(billions of dollars)



\* including Vancity, Citizens Bank and Squamish Savings branches

by \$372 million or 36.0%. These assets are beneficially owned by clients and are, therefore, not reported on the consolidated balance sheet.

Key earnings and financial position measures are presented in the five-year summary of consolidated financial highlights (please see inside cover) while Table 1 provides earnings information as a percentage of average assets and identifies changes in earnings components relative to asset size.

## STATEMENT OF EARNINGS

### Net Interest Income

Net interest income is interest and investment income earned on assets less interest expense incurred on deposits and other liabilities. Net interest income showed an increase of \$17.8 million or 7.0% over the previous year, more than last year's increase of \$5.6 million and 2.2%.

Although interest rates gradually rose during the year, they were still low by historical standards. Coupled with the high employment levels, the consumer spending and housing markets were strong, driving up volumes on consumer-related financing and residential mortgages. The information in Table 2 provides more details on the net interest income components, particularly the growth in Other Loans and Residential Mortgages. Gross interest income and gross interest expense grew at 11% and 16% respectively but the dollar value of interest income growth outpaced interest expense growth leading to an increase in the net interest income.

In 2005, there was a continuation of the shift in consumer preferences towards lower-margin products such as variable rate mortgages and credit lines in the current lower rate environment. Along with the competitive marketplace, there was downward pressure on our margins. This impact can be seen in the financial statements through Table 1, where net interest income decreased by 16 basis points when measured over the average asset base.

Interest income is sensitive to changes in mix and volumes of assets and liabilities, and to changes in interest rates. Table 3 provides an analysis of these factors for 2005 and 2004 relative to the preceding year. From this Table, the impact of the lower average rate can be seen on both interest income and interest expense. The Table also shows that the 2005 net interest income increased compared to the prior year as higher loan volumes outstripped the growth in interest expense.

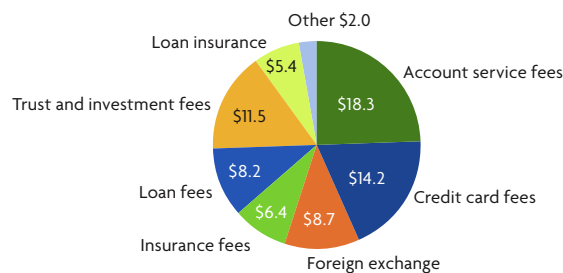
The provision for credit losses has decreased to \$7.5 million from \$10.0 million in 2004. Note 2 to the Financial Statements indicates that the provision related to normal credit factors has increased consistent with the growth in the loan portfolio. However, recoveries have increased over the prior year, bringing the net provision to a lower amount than 2004. The lending and credit risk factors that have a direct bearing on the provision for credit losses are discussed in the balance sheet section below.

### Other Income

Vancity continues to target growth in other income as the consolidated group strives to provide a full array of financial services to our members. Table 4 provides details of the various components of other income. Total other income grew by \$6.6 million or 10% for the year. As in the prior year, the two largest fee growth areas were in trust and investment fees and credit card fees. Main factors behind this growth, assisted by 2005 initiatives, would include investors regaining confidence in the securities markets and the growing VISA card base. Although account service fees remain a large category, comprising 24.5% of total other income in 2005, they have steadily decreased as a percent of total other income over past years.

### Other Income

(millions of dollars)



### Operating Expenses

Total operating expenses increased by 9.7% or \$23.2 million compared to 2004. The increased operating costs in 2005 exceeded the revenue growth, resulting in an efficiency ratio of 77% compared to 76% for the prior year. Much of the increased expenses were related to initiatives for improving member service and positioning Vancity for future success. However, Vancity remains committed to maintaining operating efficiency as part of its long term planning process.

Details of operating expenses are in Table 5, which shows that salary and employee benefits costs increased by \$13.7 million, occupancy and equipment decreased by \$2.1 million and general operating increased by \$11.6 million. Salaries and employee benefits grew due to increased customer service staffing, initiative work and regular annual salary increases. Occupancy and equipment expenses have decreased due to

the timing of fixed asset purchases. General operating increased with higher advertising and member services expenses as well as non-recurring legal and business combination costs in professional services expenses.

#### **Unusual Items**

Revenues and expenses that result from transactions and events that do not typify normal business activities of Vancity are distinguished separately from Earnings from Operations and reported in this category. In 2005, two items met this criterion. Note 8 to the Financial Statements describes a special premium charged to Vancity for deposit insurance and a special dividend received from Stabilization Central Credit Union of B.C. in 2005. Note 8 further discloses that this category included the impacts of a change in accounting standards affecting the financial institutions industry in 2004.

#### **Income and Other Taxes**

Vancity pays a variety of federal, provincial and municipal taxes. The major taxes payable are reported in Table 6, which shows the overall level of taxes remained stable combined to the prior year. Income taxes decreased slightly in 2005 due to lower earnings for the year. Further information regarding corporate income taxes is provided in Note 10 to the financial statements.

#### **Distributions to Community and Members**

Distributions to community and members decreased to \$16.6 million in 2005 from \$19.6 million in 2004, consistent with the lower net earnings. Note 9 to the Financial Statements show distributions by major categories. Membership share dividends of \$2.5 million represent a 4.5% dividend payment while patronage rebates of \$6.1 million consist of a bonus on deposit interest paid by Vancity, a rebate on loan interest paid by members, and a dividend based on investments held by members with Credential Group.

#### **Employee Loans**

Outstanding loans to directors, officers and employees of the Credit Union amounted to \$262 million at year end (2004: \$211 million) as shown in Table 7. These loans are all within normal lending terms except those noted in Table 7 which shows total loan amounts and interest rates of low-rate employee loans that form part of the compensation of employees and officers of the Credit Union. There are no loans to Directors of the Credit Union at interest rates or terms different from those available to other members.

## **BALANCE SHEET**

#### **Lending and Credit Risk**

Total loan volumes increased by 16.9% in 2005. The increase was driven by growth in residential mortgages of 15.3%, consumer loans of 25.7%, business loans of 12.2%, and commercial mortgages of 16.3%. Preference for variable rate mortgages has outpaced the very strong five year fixed terms, as members take advantage of the low rates currently available. The growth in business loans and commercial mortgages reflect Vancity's objective of diversifying revenue to rely more on other lines of businesses.

Loan losses due to normal credit factors improved from last year with loans written off totaling \$8.5 million (2004: \$9.1 million). As described in Note 2 to the Financial Statements, Vancity continues to maintain an allowance for the exposure related to the 2002 mortgage fraud due to the ongoing uncertainty of recoverability of affected loans. The allowance balance related to the mortgage fraud is \$6.1 million at the end of 2005 (2004: \$12.6 million). In total, Vancity's allowance for impairment consists of \$10.8 million of specific allowances and \$48.8 million of general allowances. Total impaired loans, as defined in Note 1(e) are \$47.3 million at the end of 2005, an increase of \$8.7 million from 2004. The total of the specific and general allowances provide adequately for future credit losses inherent in the loan portfolio from impaired loans as well as general economic and business conditions. The level of allowance is consistent with the higher balance of the total loan portfolio.

#### **Liabilities**

Deposit growth for 2005 continued to be strong with overall growth of 18.0%. Preference continues to be in shorter term and cashable products, providing added flexibility to members. Vancity also continued to benefit from the investment grade short term debt rating received from Dominion Bond Rating Service (DBRS) beginning in 2004. This rating validates our financial sustainability, strengthens our industry position and allows us to be an eligible investment partner for institutional or corporate investors. The rating of R-1 (low) also allows Vancity to issue commercial paper (short-term debt) which is categorized on the consolidated balance sheet as bearer deposit notes.

### CAPITAL MANAGEMENT

Capital requirements are set by financial institution regulatory bodies and are defined by a risk-adjusted capital ratio. The ratio compares the Credit Union's capital to its risk-adjusted assets which are calculated by applying specified weighting factors to balance sheet assets and off balance sheet items. The major components of Vancity's capital and its capital ratio are detailed in Table 8. Vancity management has a more stringent target for capital that is higher than the regulatory capital requirements. Both the regulatory and management targets were exceeded in 2005. The capital ratio was higher than the prior year at 13.8% (2004 – 12.1%), as the regulator revised the methodology for determining the ratio. Under the previous methodology, the 2005 capital adequacy ratio would have declined slightly to 11.4% due to our strong asset growth. The 2005 capital requirement was achieved primarily through retained earnings growth and the contributed surplus resulting from the business combinations.

### ASSET LIABILITY MANAGEMENT

Assets, liabilities and off balance sheet financial instruments mature or re-price at various times, largely due to members' differing term preferences. This is commonly referred to as the mismatch or gap and gives rise to interest rate risk exposure. Analysis of this interest rate sensitivity is necessary so that Vancity can manage its sensitivity to changing interest rates within established risk limits. Financial instruments such as derivatives are used to manage interest rate risk exposure, as well as to provide member products, such as stock market index-linked deposits. Vancity manages its interest rate exposure and use of derivatives through defined policies set by the Board of Directors. These policies are in turn managed by an asset liability management committee. In 2005, Vancity has maintained a relatively stable interest rate risk profile that is well within its policy limits. Note 12 to the financial statements analyzes the balance sheet by the earlier of re-pricing or maturity dates while Note 13 summarizes the derivative financial instruments by notional amount, maturity and fair market value. When a derivative contract has a positive fair market value, the counterparty has a liability to Vancity, which creates credit risk. Vancity manages this credit risk by dealing with credit worthy counterparties which are reviewed regularly.

**TABLE 1**

<b>Earnings Highlights</b> (% of average assets)	<b>2005</b>	2004	2003	2002	2001
Net interest income	<b>2.65</b>	2.81	3.05	2.99	2.50
Provision for credit losses	<b>(0.07)</b>	(0.11)	(0.16)	(0.42)	(0.24)
	<b>2.58</b>	2.70	2.89	2.57	2.26
Other income	<b>0.73</b>	0.75	0.70	0.75	0.83
	<b>3.31</b>	3.45	3.59	3.32	3.09
Operating Expenses					
Salaries and employee benefits	<b>1.43</b>	1.47	1.41	1.35	1.30
Occupancy and equipment	<b>0.28</b>	0.34	0.31	0.35	0.36
General operating	<b>0.83</b>	0.82	0.91	0.74	0.84
	<b>2.54</b>	2.63	2.63	2.44	2.50
Earnings from operations	<b>0.76</b>	0.82	0.96	0.88	0.59
Unusual Items	<b>0.01</b>	0.21	0.00	0.00	0.00
Earnings after unusual items	<b>0.77</b>	1.03	0.96	0.88	0.59
Distributions to community and members	<b>0.15</b>	0.21	0.19	0.18	0.13
Provision for income taxes	<b>0.16</b>	0.19	0.22	0.19	0.10
Net earnings - return on assets	<b>0.46</b>	0.63	0.55	0.51	0.36
Net earnings (\$ thousands)	<b>47,122</b>	57,187	44,472	39,572	25,927
Average assets (\$ thousands)	<b>10,295,365</b>	9,081,023	8,187,034	7,709,212	7,141,594

**TABLE 2**

<b>Net Interest Income</b> (thousands of dollars)	<b>2005</b>	2004	2003	2002	2001
<b>Interest Income</b>					
Residential mortgages	\$ <b>265,072</b>	\$ 252,034	\$ 259,324	\$ 259,314	\$ 283,320
Commercial mortgages	<b>42,104</b>	50,381	53,888	55,939	49,321
Other loans	<b>164,549</b>	125,064	123,095	105,693	110,955
Cash and securities	<b>29,211</b>	24,769	23,273	19,819	26,996
Other interest income	<b>16,838</b>	14,244	7,402	291	(1,417)
	<b>517,774</b>	466,492	466,982	441,056	469,175
<b>Interest Expense</b>					
Chequing / savings accounts	<b>13,092</b>	9,677	12,036	8,899	15,074
Other demand accounts	<b>2,110</b>	1,328	1,474	1,253	2,481
Term deposits	<b>148,536</b>	123,592	125,541	119,986	173,350
Retirement plans	<b>53,753</b>	57,824	59,945	61,782	74,599
Wholesale borrowings	<b>22,423</b>	16,314	14,860	16,958	24,083
Other interest costs	<b>5,004</b>	2,681	3,665	1,857	751
	<b>244,918</b>	211,416	217,521	210,735	290,338
<b>Net Interest Income</b>	\$ <b>272,856</b>	\$ 255,076	\$ 249,461	\$ 230,321	\$ 178,837

**TABLE 3****Analysis of Changes in Net****Interest Income** (thousands of dollars)

	2005 vs 2004			2004 vs 2003		
	Increase (decrease) due to changes in			Increase (decrease) due to changes in		
	Average Volume	Average Rate	Net Change	Average Volume	Average Rate	Net Change
<b>Assets</b>						
Residential mortgages	\$ 24,197	\$ (11,359)	\$ 12,838	\$ 15,061	\$ (26,725)	\$ (11,664)
Commercial mortgages	5,787	(33,837)	(28,050)	4,596	(6,250)	(1,654)
Other loans	24,725	34,222	58,947	14,984	(10,493)	4,491
Cash and securities	8,604	(3,651)	4,953	1,151	344	1,495
Total interest income	\$ 63,313	\$ (14,625)	\$ 48,688	\$ 35,792	\$ (43,124)	\$ (7,332)
<b>Liabilities</b>						
Demand deposits	\$ (1,970)	\$ (2,227)	\$ (4,197)	\$ (1,367)	\$ 3,872	\$ 2,505
Term deposits	(20,993)	(3,951)	(24,944)	(9,277)	11,225	1,948
Retirement plans	(1,017)	5,088	4,071	(1,738)	3,859	2,121
Wholesale borrowings	(5,012)	(1,097)	(6,109)	(6,065)	4,611	(1,454)
Total interest expense	(28,992)	(2,187)	(31,179)	(18,447)	23,567	5,120
	\$ 34,321	\$ (16,812)	\$ 17,509	\$ 17,345	\$ (19,557)	\$ (2,212)
<b>Other Interest Income (costs)</b>			271			7,827
<b>Change in Net Interest Income</b>			\$ 17,780			\$ 5,615

**TABLE 4****Other Income** (thousands of dollars)

	2005	2004	2003	2002	2001
Account service fees	\$ 18,302	\$ 17,503	\$ 17,435	\$ 18,218	\$ 18,146
Credit card fees	14,214	11,965	9,328	7,852	7,746
Foreign exchange	8,686	7,222	5,216	5,801	8,330
Insurance fees	6,381	5,727	5,676	5,696	5,442
Loan fees	8,200	7,661	6,166	5,954	7,528
Trust and investment fees	11,547	9,675	6,552	6,958	6,495
Loan insurance	5,379	5,517	5,037	3,945	3,444
Other	1,956	2,769	2,073	3,360	1,340
<b>Total Other Income</b>	\$ 74,665	\$ 68,039	\$ 57,483	\$ 57,783	\$ 58,471

**TABLE 5**

<b>Operating Expenses</b> (thousands of dollars)	<b>2005</b>	2004	2003	2002	2001
<b>Salary and Employee Benefits</b>					
Salaries and wages	\$ 121,720	\$ 110,569	\$ 96,469	\$ 87,785	\$ 78,450
Benefits and training	25,262	22,761	19,334	16,500	14,295
	<b>146,982</b>	133,330	115,803	104,285	92,745
<b>Occupancy and Equipment</b>					
Rent	11,296	10,137	9,531	9,963	9,656
Equipment	1,508	1,292	1,302	1,360	1,417
Maintenance and security	3,859	3,541	3,496	3,113	3,259
Amortization	11,988	15,735	11,096	12,832	11,264
	<b>28,651</b>	30,705	25,425	27,268	25,596
<b>General Operating</b>					
B.C. corporation capital tax	6,551	5,963	5,415	5,101	4,423
Advertising and promotion	14,433	12,342	11,077	8,481	6,434
Computer	6,366	5,802	4,383	5,896	4,881
Insurance and Credit Union Central dues	210	3,452	4,732	5,064	5,517
Meetings and travel	1,739	1,751	1,330	1,333	1,244
Postage	2,523	2,426	2,330	2,210	2,367
Professional services	11,702	6,894	15,145	6,800	6,665
Stationery	2,249	2,101	2,157	2,320	2,041
Telecommunications	3,669	3,315	3,318	4,315	2,568
Member services	17,879	15,176	12,797	12,430	8,672
Credit card services	10,021	8,337	6,505	6,669	6,578
Mortgage evaluation	2,576	2,125	1,420	808	586
Agent commission	2,838	3,113	3,242	2,280	2,273
Other	3,206	1,560	637	1,286	5,415
Recovery of data processing and other expenses	-	-	(66)	(8,328)	-
	<b>85,962</b>	74,357	74,422	56,665	59,664
<b>Total Operating Expenses</b>	\$ <b>261,595</b>	\$ 238,392	\$ 215,650	\$ 188,218	\$ 178,005

**TABLE 6**

<b>Income and Other Taxes</b> (thousands of dollars)	<b>2005</b>	2004	2003	2002	2001
Income taxes	\$ 16,012	\$ 16,838	\$ 17,779	\$ 14,609	\$ 7,236
B.C. Corporation Capital Tax	6,551	5,963	5,415	5,101	4,423
Payroll taxes	5,763	5,284	4,901	4,434	3,799
Property taxes	1,976	1,851	1,726	1,639	1,664
Federal and provincial sales taxes	7,782	6,612	6,261	5,158	6,115
<b>Total income and other taxes</b>	\$ <b>38,084</b>	\$ 36,548	\$ 36,082	\$ 30,941	\$ 23,237

**TABLE 7****Employee Loans** (thousands of dollars)

Category	Rate	Number of such loans	2005	2004
			Amount	Amount
<b>Loans at Preferred Staff Rates</b>				
Mortgages	3% – 5%	919	\$ 137,633	\$ 104,453
Personal loans:				
Regular	3% – 5%	924	11,439	11,687
Computer	0%	204	299	239
Total preferred rate loans		2,047	149,371	116,379
<b>Loans at Market Rates</b>				
Mortgages	market	610	86,290	73,123
Personal loans	market	225	2,419	2,305
Lines of credit	market	1,447	23,540	18,836
Total market rate loans		2,282	112,249	94,264
Total employee loans		4,329	\$ 261,620	\$ 210,643

**TABLE 8****Capital Ratios** (thousands of dollars)

	2005	2004	2003	2002	2001
<b>Capital Components</b>					
Membership shares and accrued dividends	59,153	57,440	52,200	45,802	39,315
Investment shares	38,292	36,243	35,809	34,964	33,697
Retained earnings and contributed surplus	491,614	440,302	383,114	338,642	299,071
Less: Future income taxes	(11,825)	(14,939)	(15,189)	(7,508)	(2,603)
Less: Deductions from Capital	(79,473)	(87,801)	(81,787)	(77,310)	(68,978)
Vancity group capital	497,761	431,245	374,147	334,590	300,502
Proportion of system capital	50,671	48,345	44,659	38,866	36,255
Total capital	\$ 548,432	\$ 479,590	\$ 418,806	\$ 373,456	\$ 336,757
Total risk-adjusted assets	\$ 3,970,605	\$ 3,978,379	\$ 3,602,918	\$ 3,424,532	\$ 3,240,087
Capital ratio	13.8%	12.1%	11.6%	10.9%	10.4%

## auditors' report

To the Members of Vancouver City Savings Credit Union

We have audited the consolidated balance sheet of Vancouver City Savings Credit Union as at December 31, 2005 and the consolidated statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Credit Union's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

## management's responsibility for financial reporting

These consolidated financial statements were prepared by the management of Vancity who are responsible for their accuracy, completeness and integrity. They were developed in accordance with the requirements of the Financial Institutions Act of British Columbia and conform in all material respects with the Canadian generally accepted accounting principles.

Systems of internal control and reporting procedures are designed to provide reasonable assurance that the financial records are complete and accurate so as to safeguard the assets of the Credit Union. These systems include establishment and communication of standards of business conduct throughout all levels of the organization to provide assurance that all transactions are authorized and proper records are maintained. Internal audit provides management with the ability to assess the adequacy of these controls. Further, they are reviewed by the Credit Union's external auditors.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Credit Union as at December 31, 2005 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



**Grant Thornton LLP**

Chartered Accountants  
Vancouver, Canada  
February 1, 2006

The Board of Directors has approved the consolidated financial statements. The Audit Committee of the Board, comprising four directors who are not officers or employees of Vancity, has reviewed the statements with the external auditors, in detail, and received regular reports on internal control findings. Grant Thornton LLP, the external auditors appointed by the membership, have examined the consolidated financial statements of the Credit Union in accordance with Canadian general accepted auditing standards. They have had full and free access to the internal audit staff, other management staff, and the Audit Committee of the Board. Their report appears herein.



**Dave Mowat**  
Chief Executive Officer  
February 1, 2006




**Johan Lemmer**  
Vice-President, Finance

VANCOUVER CITY SAVINGS CREDIT UNION

## Consolidated Balance Sheet

As at December 31, 2005

(thousands of dollars)	Note	2005	2004
<b>ASSETS</b>			
<b>Cash and Securities</b>			
Cash and cash equivalents		\$ 114,904	\$ 151,768
Deposits with financial institutions		532,154	480,062
Government and corporate securities		893,042	1,082,616
		<u>1,540,100</u>	<u>1,714,446</u>
<b>Loans</b>			
Residential mortgages		6,321,474	5,481,782
Commercial mortgages		973,948	837,636
Consumer loans		1,821,773	1,448,789
Business loans		926,848	826,305
Allowance for credit losses	2	(59,569)	(58,696)
		<u>9,984,474</u>	<u>8,535,816</u>
<b>Other</b>			
Accrued interest receivable		44,504	37,858
Premises and equipment	4	66,406	65,493
Other assets	5	120,835	100,152
		<u>231,745</u>	<u>203,503</u>
		<u>\$ 11,756,319</u>	<u>\$ 10,453,765</u>
<b>LIABILITIES</b>			
<b>Deposits</b>			
Demand		\$ 1,909,192	\$ 1,592,391
Term		8,552,851	7,270,739
Shares	6	96,112	87,705
		<u>10,558,155</u>	<u>8,950,835</u>
<b>Wholesale Borrowings</b>			
Demand loans and banker's acceptances	16	245,148	614,395
Bearer deposit notes	16	213,271	199,373
		<u>458,419</u>	<u>813,768</u>
<b>Other Liabilities</b>			
Accrued interest and dividends payable		105,843	107,437
Accounts payable and other accrued liabilities		142,289	141,424
		<u>248,132</u>	<u>248,861</u>
<b>MEMBERS' EQUITY</b>			
Contributed Surplus	7	4,190	-
Retained Earnings		487,423	440,301
		<u>491,613</u>	<u>440,301</u>
		<u>\$ 11,756,319</u>	<u>\$ 10,453,765</u>

  
Director

  
Director

## Consolidated Statement of Earnings and Retained Earnings

For the Year Ended December 31, 2005

(thousands of dollars)	Note	2005	2004
<b>INTEREST INCOME</b>			
Loans		\$ 471,725	\$ 427,479
Cash and securities		29,211	24,769
Other		16,838	14,244
		<u>517,774</u>	<u>466,492</u>
<b>INTEREST EXPENSE</b>			
Deposits		217,491	192,421
Wholesale borrowings		22,423	16,314
Other		5,004	2,681
		<u>244,918</u>	<u>211,416</u>
<b>NET INTEREST INCOME</b>		<b>272,856</b>	255,076
<b>PROVISION FOR CREDIT LOSSES</b>	2	<b>7,525</b>	9,968
		<u>265,331</u>	<u>245,108</u>
<b>OTHER INCOME</b>		<b>74,665</b>	68,039
<b>NET INTEREST AND OTHER INCOME</b>		<b>339,996</b>	313,147
<b>OPERATING EXPENSES</b>			
Salaries and employee benefits		146,982	133,330
Occupancy and equipment		28,651	30,705
General operating		85,962	74,357
		<u>261,595</u>	<u>238,392</u>
<b>EARNINGS FROM OPERATIONS</b>		<b>78,401</b>	74,755
<b>UNUSUAL ITEMS</b>	8	<b>1,359</b>	18,848
<b>EARNINGS AFTER UNUSUAL ITEMS</b>		<b>79,760</b>	93,603
<b>DISTRIBUTIONS TO COMMUNITY AND MEMBERS</b>	9	<b>16,626</b>	19,578
<b>EARNINGS BEFORE INCOME TAXES</b>		<b>63,134</b>	74,025
<b>PROVISION FOR INCOME TAXES</b>	10	<b>16,012</b>	16,838
<b>NET EARNINGS</b>		<b>47,122</b>	57,187
<b>RETAINED EARNINGS</b> , beginning of year		<b>440,301</b>	383,114
<b>RETAINED EARNINGS</b> , end of year		<u>\$ 487,423</u>	<u>\$ 440,301</u>

The accompanying notes are an integral part of these consolidated financial statements

VANCOUVER CITY SAVINGS CREDIT UNION

## Consolidated Statement of Cash Flows

For the Year Ended December 31, 2005

(thousands of dollars)	Note	2005	2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Net Earnings</b>		\$ 47,122	\$ 57,187
Adjustments for:			
Provision for credit losses		7,525	9,968
Amortization of premises and equipment		11,988	15,734
Changes in operating assets and liabilities			
Net future income tax assets		2,710	(69)
Accrued interest receivable		(6,646)	(5,486)
Other assets		1,891	5,679
Accrued interest and dividends payable		(1,594)	4,089
Accounts payable and other accrued liabilities		865	27,613
		<u>63,861</u>	<u>114,715</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Deposits with financial institutions		(52,092)	455,583
Government and corporate securities		189,574	(949,885)
Loans		(1,610,760)	(1,248,888)
Sale of mortgage-backed securities		154,573	386,614
Premises and equipment		(12,897)	(14,455)
Other assets		(25,284)	(11,811)
Non-cash net assets acquired from business combinations	7	(4,793)	-
Cash and cash equivalents acquired from business combinations	7	8,983	-
		<u>(1,352,696)</u>	<u>(1,382,842)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Demand and term deposits		1,598,913	521,266
Shares		8,407	2,869
Loans payable		(355,349)	811,768
		<u>1,251,971</u>	<u>1,335,903</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>		<b>(36,864)</b>	<b>67,776</b>
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>		<b>151,768</b>	<b>83,992</b>
<b>CASH AND CASH EQUIVALENTS, end of year</b>		<b>\$ 114,904</b>	<b>\$ 151,768</b>
<b>SUPPLEMENTARY INFORMATION</b>			
Interest paid		\$ 229,675	\$ 200,607
Income taxes paid		25,547	32,958

The accompanying notes are an integral part of these consolidated financial statements

## Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2005

Vancouver City Savings Credit Union is incorporated under the Credit Union Incorporation Act of British Columbia and its operations are subject to the Financial Institutions Act of British Columbia. The Credit Union serves members principally in the Lower Mainland of British Columbia and Victoria. Citizens Bank of Canada, the principal subsidiary of the Credit Union, is federally incorporated and its operations are regulated by the Office of Superintendent of Financial Institutions (OSFI). Citizens Bank serves customers across Canada with its main operations in British Columbia and Ontario. The Credit Union is an integrated financial institution that provides a wide range of financial products and services that comprise one business operating segment.

### 1. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates. Citizens Bank must also adhere to accounting requirements of OSFI, which conform, in all material respects to Canadian generally accepted accounting principles. The significant accounting policies used in these consolidated financial statements are as follows:

#### (a) Principles of Consolidation

The consolidated financial statements include the assets, liabilities and the results of operations and cash flows of the Credit Union and its subsidiaries, all of which are wholly owned except for Real Assets Investment Management Inc. The Credit Union owns 95% of Real Assets Investment Management Inc. The wholly-owned active subsidiaries are Citizens Bank of Canada, Citizens Trust Company, Inventure Solutions Inc., Vancity Capital Corporation, Vancity Enterprises Ltd., Vancity Insurance Services Ltd., SCU Insurance Services Ltd., Squamish Insurance Agencies Ltd., and Vancity Investment Management Ltd. The Credit Union and its subsidiaries are collectively referred to as "Vancity". All intercompany transactions and balances have been eliminated.

#### (b) Cash and Cash Equivalents

Cash and cash equivalents are comprised of cash held as well as deposits with Credit Union Central of B.C., amounts due from other financial institutions, and cheques and other items in transit.

#### (c) Deposits with Financial Institutions

Deposits with Credit Union Central of B.C. and other financial institutions are recorded at cost. Interest income on interest-bearing deposits is recorded on an accrual basis.

#### (d) Securities

Investments in government and corporate securities are carried at cost less any impairment provisions for other than temporary declines in value. Interest income is recorded on an accrual basis and gains and losses are taken into earnings when realized.

#### (e) Loans

Loans are carried at the principal amount less an allowance for impairment. Interest income is recorded on an accrual basis except when a loan is considered to be impaired. Interest income on impaired loans is recognized on a cash basis but only after any specific provision for impairment or partial write-off has been recovered, and provided that there is no further doubt as to the collectibility of the principal amount.

Loans are generally considered to be impaired at the earlier of when, in the opinion of management, there is reasonable doubt regarding the timely collection of the full amount of principal and interest, or when interest or principal is 90 days past due. Loans considered uncollectible are written-off. Impaired loans are carried at their estimated realizable amounts, determined by discounting the expected future cash flows at the interest rates inherent in the loans. When the amounts of future cash flows cannot be estimated with reasonable reliability, impaired loans are carried at the fair value of the underlying security, net of estimated costs of realization.

#### Allowance for Impairment

The allowance for impairment is maintained at a level considered adequate to absorb identified credit related losses in the portfolio as well as losses that may be incurred but are not yet identifiable. Specific allowances are provided for specifically identified loans that are impaired. The general allowance represents the best estimate of probable losses within the portion of the portfolio that is not specifically identified as impaired. The amount is established through the application of expected loss factors to outstanding balances. The general allowance includes management's assessment of probable, unidentified losses, consideration of general economic and business conditions, recent loan loss experience, trends in credit quality and concentrations in specific geographic areas and in segments of borrowers.

#### Loan Fees

The accounting treatment for loan fees varies depending on the transaction. Retail loan fees, except for mortgage prepayment fees, application fees and modification fees, are recognized to other income when received. Mortgage prepayment fees are

VANCOUVER CITY SAVINGS CREDIT UNION

## Notes to the Consolidated Financial Statements (continued)

For the Year Ended December 31, 2005

recognized in other interest income when received, unless they relate to a minor modification to the terms of the mortgage, in which case the fees are deferred and amortized over the average remaining term of the original mortgage. Application and modification fees are deferred and amortized to other income over the average remaining term of the mortgage. Loan origination, restructuring and renegotiation fees for commercial and business loans are recorded to other income over the average term of the loan. Commitment fees are recorded to other income over the average term of the loan, unless the loan commitment will not be used. Loan discharge, draw and administration fees are recorded directly to loan fee income when the loan transaction is complete. Loan syndication fees are included in other interest income when the syndication is completed.

**Transfers of Loans**

Vancity periodically sells loans to special purpose entities or other unrelated third parties. These transactions are accounted for as sales and the related loans are removed from the balance sheet when control over the loans is surrendered and consideration other than beneficial interests in the transferred loans is received in exchange.

The fair values of loans sold and retained interests are determined using pricing models based on key assumptions such as expected losses, prepayments and discount rates commensurate with the risks involved. Gains or losses on these transactions are recorded in other interest income and are based on the carrying value of the loans transferred, allocated between the assets sold and the retained interests in proportion to their fair values at the date of transfer. The carrying value of retained interests is reviewed annually for impairment and adjusted as required.

Vancity may retain interests in the transferred loans, such as interest only strips, servicing rights and cash reserve accounts. Revenue from servicing the loans is recorded as the services are provided.

**(f) Premises and Equipment**

Land is carried at cost. Buildings, equipment and leasehold improvements are recorded at cost, less accumulated depreciation and amortization. Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the assets as indicated below:

Buildings	20 years
Leasehold improvements	10 years
Computer equipment and software	3-5 years
Furniture and equipment	3-5 years

**(g) Other Assets**

Investments in shares are recorded at cost. Properties acquired for investment purposes are recorded at cost and impairment provisions are made for permanent declines in value. Deferred costs include premiums and charges related to derivative financial instruments and commissions paid to agents for raising deposits. These costs are amortized over the remaining life of the underlying instruments.

**(h) Derivative Financial Instruments**

Derivative financial instruments are financial contracts that require or provide an option to exchange cash flows or payments determined by applying certain rates, indices or changes therein to notional contract amounts. Derivative financial instruments are used to manage financial risks, such as movements in interest rates, foreign exchange rates, and other financial indices as well as to take trading positions.

A derivative qualifies for hedge accounting if the hedging relationship is designated and formally documented at inception. This documentation involves outlining the particular risk management objective and strategy for the hedging relationship, the specific asset, liability or cash flow being hedged, and how effectiveness is assessed. Hedging relationships, between the hedged and hedging items, are designated as a fair value hedge or a cash flow hedge. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or anticipated transactions. Effectiveness is assessed by determining whether derivatives used in hedging relationships are highly effective in offsetting changes in fair values or cash flows attributable to the risk being hedged. This assessment is performed both at inception and over the term of the hedging relationship.

Derivatives, including trading derivatives, that do not qualify for hedge accounting are marked-to-market and stated at fair value. These derivatives are reported as assets or liabilities with changes in fair value recorded in income. In the event that a hedged item is sold or matures prior to the termination of the related derivative, any realized or unrealized gain or loss on the derivative is recognized in income. Realized and unrealized gains and losses associated with derivatives, which have been terminated or cease to be effective prior to maturity are deferred and recognized in income in the period in which the underlying hedged item is recognized. Subsequent changes in fair values of derivatives found to be ineffective are recorded in income.

Interest rate swaps are used to manage the interest rate exposure from specific assets, liabilities, and firm commitments or anticipated transactions as well as to take trading positions. Swaps

## Notes to the Consolidated Financial Statements (continued)

For the Year Ended December 31, 2005

that qualify for hedge accounting are recorded on the accrual basis. Interest income and interest expense is recognized, over the term of the hedging relationship, as an adjustment to the yield of the item being hedged.

Options are used to manage the risk of changes in fair value of equity-linked deposit contracts with members. Premiums on these options are amortized over the term of the option contract. Both index linked options and index linked obligations are carried at fair value. Changes in these fair values are recorded in other interest income.

Foreign currency derivatives are used to manage the foreign exchange rate exposure from foreign currency denominated assets and liabilities. These derivatives are recorded at market value and changes in the market values are recorded in other income.

### **(i) Employee Future Benefits**

Vancity accrues obligations under employee benefits. The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. The accrued benefit asset or liability represents the cumulative difference between the expense and funding contributions and is included in other liabilities on the balance sheet.

### **(j) Distributions to Members**

Patronage rebates and dividends are charged to earnings when declared.

### **(k) Income Taxes**

Vancity follows the asset and liability method of accounting for income taxes. Future income tax assets and liabilities are computed based on differences between the carrying amount of assets or liabilities on the balance sheet and their corresponding tax values using the enacted or substantively enacted income tax rates that are expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled. Future income tax assets also result from the carry forward of unused tax losses and other deductions.

The valuation of future income tax assets is reviewed annually and adjusted, if necessary, to reflect the estimated realizable amount. Net future income tax assets or liabilities are reflected in other assets or other liabilities, as appropriate.

### **(n) Translation of Foreign Currencies**

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rates prevailing on the balance sheet date. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at average exchange rates for the year. Realized gains and losses are translated at the rates prevailing at the time of the transaction and are recorded in "other income" in the statement of earnings.

### **(o) Comparative Figures**

Comparative figures are reclassified, where appropriate, to conform with the current year's presentation.

## VANCOUVER CITY SAVINGS CREDIT UNION

## Notes to the Consolidated Financial Statements (continued)

For the Year Ended December 31, 2005

**2. ALLOWANCE FOR CREDIT LOSSES**

(thousands of dollars)	<b>Residential</b>	<b>Commercial</b>	<b>Consumer</b>	<b>Business</b>	<b>2005 Total</b>	2004 Total
Balance, beginning of year	\$ 20,019	\$ 9,803	\$ 17,526	\$ 11,348	\$ 58,696	\$ 55,841
Provision for credit losses						
Normal credit factors	2,689	2,624	6,297	2,832	14,442	12,092
Mortgage fraud recovery	(6,917)	-	-	-	(6,917)	(2,124)
	<u>(4,228)</u>	<u>2,624</u>	<u>6,297</u>	<u>2,832</u>	<u>7,525</u>	<u>9,968</u>
Loans written off	(502)	-	(6,998)	(1,017)	(8,517)	(9,107)
Recoveries of loans written off	155	-	1,687	23	1,865	1,994
Balance, end of year	<u>\$ 15,444</u>	<u>\$ 12,427</u>	<u>\$ 18,512</u>	<u>\$ 13,186</u>	<u>\$ 59,569</u>	<u>\$ 58,696</u>
Loans with specific allowances						
Loan balance	\$ 7,402	\$ 4,875	\$ 2,006	\$ 9,957	\$ 24,240	\$ 30,624
Related allowance	6,170	580	760	3,292	10,802	17,191
Carrying amount	<u>\$ 1,232</u>	<u>\$ 4,295</u>	<u>\$ 1,246</u>	<u>\$ 6,665</u>	<u>\$ 13,438</u>	<u>\$ 13,433</u>
Loans with general allowances						
Loan balance	\$6,314,072	\$ 969,073	\$ 1,819,767	\$ 916,891	\$10,019,803	\$ 8,563,888
Related allowance	9,274	11,847	17,752	9,894	48,767	41,505
Carrying amount	<u>\$6,304,798</u>	<u>\$ 957,226</u>	<u>\$ 1,802,015</u>	<u>\$ 906,997</u>	<u>\$ 9,971,036</u>	<u>\$ 8,522,383</u>
Loans on which the accrual of interest has been discontinued	<u>\$ 16,047</u>	<u>\$ 6,521</u>	<u>\$ 6,782</u>	<u>\$ 17,949</u>	<u>\$ 47,299</u>	<u>\$ 38,616</u>

During 2002, Vancity and other financial institutions experienced a residential mortgage fraud. Management quantified the exposure related to the fraud and submitted a claim to the Law Society of British Columbia. Due to the ongoing uncertainty of recoverability, management maintains a specific allowance of \$6.1 million (2004: \$12.6 million) for the outstanding impairment which is adjusted as partial recoveries are received.

## Notes to the Consolidated Financial Statements (continued)

For the Year Ended December 31, 2005

**3. TRANSFERS OF LOANS**

The total outstanding loans sold and removed from the balance sheet at December 31, 2005 were \$526 million (2004: \$563 million). Of this amount, \$496 million (2004: \$522 million) were residential mortgages and \$30 million (2004: \$41 million) were commercial mortgages.

New securitization activity during the year:

(thousands of dollars)	Residential Mortgages	
	2005	2004
Loans sold	\$ 156,135	\$ 394,705
Net cash proceeds received	154,573	386,614
Retained rights to cash reserves	1,561	8,091
Retained rights to future excess interest	1,302	47
Pre-tax gain on sale	1,302	47
Key assumptions at date of sale:		
Average life	3.8 years	3.9 years
Prepayment rate (% / year)	20%	5%
Excess spread	0.299%	0.005%
Discount rate	4.192% - 4.490%	2.99% - 4.07%

**4. PREMISES AND EQUIPMENT**

(thousands of dollars)	Accumulated		Net Book Value	
	Cost	Amortization	2005	2004
Land	\$ 8,876	\$ -	\$ 8,876	\$ 7,908
Buildings	44,482	13,887	30,595	29,169
Leasehold improvements	18,794	8,452	10,342	9,707
Computer equipment and software	55,111	44,822	10,289	13,295
Furniture and equipment	13,655	7,351	6,304	5,414
	\$ 140,918	\$ 74,512	\$ 66,406	\$ 65,493

**5. OTHER ASSETS**

(thousands of dollars)	2005	2004
Credit Union Central of B.C. shares	\$ 31,897	\$ 33,770
Accounts receivable, prepayments and other	66,660	42,093
Deferred costs, net of amortization	6,014	5,315
Net future income tax assets (Note 10)	16,264	18,974
	\$ 120,835	\$ 100,152

The investment in the shares of Credit Union Central of B.C. is required under operating agreements.

**6. SHARES**

(thousands of dollars)	2005	2004
Membership shares	\$ 53,314	\$ 46,642
Investment shares	38,292	36,243
Savings shares	4,506	4,820
	\$ 96,112	\$ 87,705

Members are required to purchase up to \$50 of membership shares and are from time to time allowed to purchase investment shares.

The retraction or redemption of these shares may be subject to certain restrictions. Current outstanding investment shares earn dividends at a quarterly adjusted rate set at least 1% above the three to five year Government of Canada bond yields.

Monies invested in membership, investment and savings shares are not guaranteed by the Credit Union Deposit Insurance Corporation of British Columbia.

**7. BUSINESS COMBINATIONS**

Vancity acquired the assets and assumed the liabilities of Village Credit Union and Squamish Credit Union on July 1, 2005 and December 31, 2005 respectively. These transactions are recorded using the purchase method. The fair value of net assets acquired has been reported in the consolidated balance sheet as contributed surplus. Operating results for Village Credit Union from July have been reported in the consolidated statement of earnings and retained earnings.

The members of Village Credit Union and Squamish Credit Union exchanged membership and savings shares from their respective credit unions for Vancity membership and savings shares. Members of Village Credit Union also exchanged investment shares for Vancity investment shares, term deposits or cash.

The following table summarizes the estimated fair values of the net assets acquired:

(thousand of dollars)	Village Credit Union	Squamish Credit Union	Total
<b>Assets acquired</b>			
Cash and cash equivalents	\$ 2,901	\$ 6,082	\$ 8,983
Securities	21,236	-	21,236
Loans	92,488	65,699	158,187
Other	2,860	3,110	5,970
	\$ 119,485	\$ 74,891	\$ 194,376
<b>Liabilities assumed</b>			
Deposits	\$ 117,676	\$ 61,766	\$ 179,442
Other	1,549	9,195	10,744
	\$ 119,225	\$ 70,961	\$ 190,186
<b>Net assets acquired</b>	\$ 260	\$ 3,930	\$ 4,190

VANCOUVER CITY SAVINGS CREDIT UNION

## Notes to the Consolidated Financial Statements (continued)

For the Year Ended December 31, 2005

**8. UNUSUAL ITEMS**

## Deposit Insurance Assessment

In 2005, Credit Union Deposit Insurance Corporation of B.C. (CUDIC) assessed a special premium to its member credit unions. Vancity's share of this assessment was \$21.9 million.

## Special Dividend

Stabilization Central Credit Union of B.C. declared and paid a special dividend to its member credit unions in 2005. Vancity's share of this dividend was \$23.2 million.

The net amount of \$1.3 million in unusual items is reported on the consolidated statement of earnings and retained earnings for 2005.

## Change in Accounting Policy

Mortgage prepayment fees are fees charged for early repayment of residential mortgages. Prior to January 1, 2004, Vancity deferred and amortized prepayment fees over the average remaining term of the related mortgages. In adopting the new standard in 2004, prepayment fees are recognized in other interest income when received, unless they relate to a minor modification to the terms of the mortgage, in which case the fees are deferred and amortized over the average remaining term of the original mortgage. Consequently, deferred prepayment fees at December 31, 2003 of \$18.8 million were recognized in 2004 income as an unusual item on the consolidated statement of earnings and retained earnings.

**9. DISTRIBUTIONS TO COMMUNITY AND MEMBERS**

(thousands of dollars)	2005	2004
Donations to community and Vancity Community Foundation	\$ 5,317	\$ 6,415
Vancity Award	1,000	1,000
Membership share dividends	2,486	2,551
Patronage rebates	6,135	7,966
Total shared success	14,938	17,932
Investment share dividends	1,688	1,646
Total distributions to community and members	\$ 16,626	\$ 19,578

Patronage rebates are calculated based on loan interest received by Vancity, deposit interest paid by Vancity and member funds under administration with Credential Asset Management (CAM). The rebates relating to loan interest received amounted to \$1.8 million (2004: \$1.7 million), to deposit interest paid amounted to \$3.6 million (2004: \$4.9 million) and to member funds under administration with CAM amounted to \$0.7 million (2004: \$1.4 million).

**10. INCOME TAXES**

(thousands of dollars)	2005	2004
Components of the provision for income taxes		
Current income tax expense	\$ 11,882	\$ 16,907
Future income tax expense (recoveries)	4,130	(69)
	\$ 16,012	\$ 16,838

The provision for income taxes is at a rate less than the combined federal and provincial statutory income tax rates for the following reasons:

	2005	2004
Combined federal and provincial statutory income tax rates	34.9 %	35.6 %
Credit union rate reduction	(15.2)	(14.8)
Non deductible and other items	5.7	1.9
	25.4 %	22.7 %

The tax effects of temporary differences which give rise to the net future income tax assets reported in other assets are as follows:

(thousands of dollars)	2005	2004
Future income tax assets:		
Allowance for impairment of loans	\$ 10,918	\$ 10,604
Deferred revenue	1,339	2,003
Accrued employee future benefits	2,419	2,157
Other accrued expenses	3,301	5,550
Premises, equipment	261	356
	18,238	20,670
Future income tax liabilities:		
Deferred expenses	(1,974)	(1,696)
Net future income tax assets (Note 5)	\$ 16,264	\$ 18,974

## Notes to the Consolidated Financial Statements (continued)

For the Year Ended December 31, 2005

**11. PENSIONS AND OTHER RETIREMENT BENEFITS**

Vancity provides pension benefits to employees through defined contribution, defined benefit, supplemental retirement and multi-employer defined benefit plans. Other post-retirement benefits, including life insurance, health care and dental benefits or cash alternatives are provided to eligible Vancity employees upon or after retirement.

Vancity funds the defined benefit plans and multi-employer defined benefits plans based on actuarially prescribed amounts. The unfunded supplemental retirement and non-pension benefit plans are paid directly by Vancity at the time of entitlement. Retirement benefits for the defined contribution plan are paid by Vancity on an annual basis.

The accrued benefit obligation and plan assets were actuarially measured for accounting purposes as of October 31, 2005 (2004: October 31, 2004). The effective date of the last actuarial valuation report for funding purposes was on January 1, 2003 and the effective date of the next required actuarial valuation report will be on January 1, 2006.

(thousands of dollars)	Pension Plans		Other Benefit Plans	
	2005	2004	2005	2004
<b>Accrued retirement plan obligations</b>				
Opening balance, actuarial benefit liabilities	\$ 12,324	\$ 10,170	\$ 9,795	\$ 9,116
Benefits paid	(257)	(186)	(142)	(389)
Current service	1,314	1,086	982	867
Interest cost on accrued benefit obligation	772	664	613	585
Actuarial losses (gains)	747	590	3,235	(384)
Actuarial benefit liabilities at measurement date	\$ 14,900	\$ 12,324	\$ 14,483	\$ 9,795
<b>Fair value of retirement benefit plan assets</b>				
Opening balance, fair value of plan assets	\$ 9,960	\$ 7,188	\$ -	\$ -
Employer contributions	651	2,008	142	389
Employee contributions	39	42	-	-
Benefits paid	(257)	(186)	(142)	(389)
Actual return on plan assets	1,170	908	-	-
Fair value of plan assets at measurement date	\$ 11,563	\$ 9,960	\$ -	\$ -
<b>Funded status - plan deficits</b>				
Contributions between November 1 and December 31	\$ 3,337	\$ 2,364	\$ 14,483	\$ 9,795
	(35)	(61)	-	(3)
Unamortized net actuarial losses	(2,568)	(2,449)	(3,359)	(153)
Unamortized past service cost	(631)	(714)	-	-
Accrued benefit (assets) liabilities at December 31 <sup>1</sup>	\$ 103	\$ (860)	\$ 11,124	\$ 9,639
<b>Total retirement benefit plan expense</b>				
Defined benefit plans	\$ 1,587	\$ 1,380	\$ 1,624	\$ 1,490
Multi-employer defined benefit plans	1,442	1,023	-	-
Defined contribution plans	3,743	3,361	-	-
<b>Retirement benefit plan expenses</b>	\$ 6,772	\$ 5,764	\$ 1,624	\$ 1,490

Vancity uses a variety of assumptions in the measurement of the accrued benefit obligations, benefit costs and health care costs. These assumptions include: discount rates for future cash flows, rates for compensation increases, expected long-term rates of return on plan assets and health care costs trend rates.

<sup>1</sup>The net accrued benefit liabilities is recorded in accounts payable and other accrued liabilities on the balance sheet.

## VANCOUVER CITY SAVINGS CREDIT UNION

## Notes to the Consolidated Financial Statements (continued)

For the Year Ended December 31, 2005

**12. INTEREST RATE SENSITIVITY**

Interest rate risk is a measure of how sensitive Vancity's financial position is to movements in interest rates. To manage interest rate risk, Vancity uses swaps and other derivative financial instruments. The carrying amounts of interest sensitive assets and liabilities are matched to these derivative instruments in the periods they mature or reprice to current market rates. Variable rate assets and liabilities are included in the within 3 month category. These amounts are summed to show the interest rate sensitivity gap. Loans are adjusted for prepayment estimates which reflect expected repayments on other than contractual maturity dates. The prepayment rate applied to the portfolio is based on experience and current economic conditions.

(thousands of dollars)	Average Rate	Within 3 Months	3 Months to 1 Year	1 to 2 Years	2 to 3 Years	3 to 4 Years	Over 4 Years	Non-Interest Sensitive	Total
<b>December 31, 2005</b>									
<b>Assets</b>									
Cash and cash equivalents		\$ 11,807	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 103,097	\$ 114,904
Deposits and securities	3.61%	847,110	114,311	144,513	153,169	126,093	40,000	-	1,425,196
Loans	5.15%	3,782,814	1,688,769	1,533,522	1,437,467	798,703	743,199	-	9,984,474
Other		-	-	-	-	-	-	231,745	231,745
		<b>4,641,731</b>	<b>1,803,080</b>	<b>1,678,035</b>	<b>1,590,636</b>	<b>924,796</b>	<b>783,199</b>	<b>334,842</b>	<b>11,756,319</b>
<b>Liabilities and Equity</b>									
Deposits	2.84%	4,146,147	3,307,260	864,866	537,965	197,269	136,614	1,368,034	10,558,155
Loans	3.34%	458,419	-	-	-	-	-	-	458,419
Other		-	-	-	-	-	-	739,745	739,745
		<b>4,604,566</b>	<b>3,307,260</b>	<b>864,866</b>	<b>537,965</b>	<b>197,269</b>	<b>136,614</b>	<b>2,107,779</b>	<b>11,756,319</b>
<b>Balance sheet mismatch</b>		<b>37,165</b>	<b>(1,504,180)</b>	<b>813,169</b>	<b>1,052,671</b>	<b>727,527</b>	<b>646,585</b>	<b>(1,772,937)</b>	<b>-</b>
<b>Derivatives</b>		<b>275,000</b>	<b>(418,000)</b>	<b>(47,000)</b>	<b>75,000</b>	<b>(360,000)</b>	<b>475,000</b>	<b>-</b>	<b>-</b>
<b>Net mismatch</b>		<b>\$ 312,165</b>	<b>\$ (1,922,180)</b>	<b>\$ 766,169</b>	<b>\$ 1,127,671</b>	<b>\$ 367,527</b>	<b>\$ 1,121,585</b>	<b>\$ (1,772,937)</b>	<b>\$ -</b>
<b>December 31, 2004</b>									
<b>Assets</b>									
Cash and cash equivalents		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 151,768	\$ 151,768
Deposits and securities	2.98%	1,055,331	77,314	137,139	94,048	58,303	140,543	-	1,562,678
Loans	5.12%	2,783,020	1,447,882	1,527,400	1,172,865	929,708	721,868	(46,927)	8,535,816
Other		-	-	-	-	-	-	203,503	203,503
		<b>3,838,351</b>	<b>1,525,196</b>	<b>1,664,539</b>	<b>1,266,913</b>	<b>988,011</b>	<b>862,411</b>	<b>308,344</b>	<b>10,453,765</b>
<b>Liabilities and Equity</b>									
Deposits	2.50%	3,136,248	2,818,608	740,132	747,187	173,257	166,907	1,168,496	8,950,835
Loans	2.68%	768,829	-	-	-	-	-	44,939	813,768
Other		-	-	-	-	-	-	689,162	689,162
		<b>3,905,077</b>	<b>2,818,608</b>	<b>740,132</b>	<b>747,187</b>	<b>173,257</b>	<b>166,907</b>	<b>1,902,597</b>	<b>10,453,765</b>
<b>Balance sheet mismatch</b>		<b>(66,726)</b>	<b>(1,293,412)</b>	<b>924,407</b>	<b>519,726</b>	<b>814,754</b>	<b>695,504</b>	<b>(1,594,253)</b>	<b>-</b>
<b>Derivatives</b>		<b>345,000</b>	<b>(195,000)</b>	<b>(148,000)</b>	<b>23,000</b>	<b>(50,000)</b>	<b>25,000</b>	<b>-</b>	<b>-</b>
<b>Net mismatch</b>		<b>\$ 278,274</b>	<b>\$ (1,488,412)</b>	<b>\$ 776,407</b>	<b>\$ 542,726</b>	<b>\$ 764,754</b>	<b>\$ 720,504</b>	<b>\$ (1,594,253)</b>	<b>\$ -</b>

The average rate represents the weighted average effective yield based on the earlier of repricing or maturity dates.

## Notes to the Consolidated Financial Statements (continued)

For the Year Ended December 31, 2005

**13. DERIVATIVE FINANCIAL INSTRUMENTS**

(thousands of dollars)

	Notional Amounts				Fair Values	
	Maturities of Derivatives Within 1 Year	1 to 5 Years	Total 2005	Total 2004	2005	2004
<b>Hedging derivatives used to manage interest rate risk</b>						
Receive fixed interest current swaps	\$ 30,000	\$ 50,000	\$ 80,000	\$ 80,000	\$ 798	\$ 1,416
Receive fixed interest forward starting swaps	150,000	943,000	1,093,000	318,000	800	5,115
Pay fixed interest current swaps	850,000	250,000	1,100,000	700,000	1,606	(3,389)
Pay fixed interest forward starting swaps	-	35,000	35,000	-	(637)	-
	<b>1,030,000</b>	<b>1,278,000</b>	<b>2,308,000</b>	1,098,000	<b>2,567</b>	3,142
<b>Other hedging derivatives</b>						
Foreign exchange future sell contracts	22,433	-	22,433	33,996	350	822
Foreign exchange future buy contracts	20,629	-	20,629	30,907	(16)	(1,083)
Index-linked call options purchased	5,625	16,107	21,732	34,294	3,646	3,350
	<b>48,687</b>	<b>16,107</b>	<b>64,794</b>	99,197	<b>3,980</b>	3,089
<b>Trading derivatives</b>						
Received fixed forward rate agreements	-	14,700	14,700	-	(64)	-
Pay fixed forward rate agreements	-	10,000	10,000	-	58	-
	-	<b>24,700</b>	<b>24,700</b>	-	<b>(6)</b>	-
<b>Total derivative contracts</b>	<b>\$ 1,078,687</b>	<b>\$ 1,318,807</b>	<b>\$ 2,397,494</b>	\$ 1,197,197	<b>\$ 6,541</b>	\$ 6,231

Quoted market prices are not available for a significant portion of Vancity's derivative financial instruments. Consequently, fair values are derived using present value and other valuation techniques and may not be indicative of the net realizable values.

The credit risk amount of derivatives, which represents the current replacement cost of all outstanding over-the-counter derivative contracts in a gain position without factoring in the impact of master netting agreements or the value of any collateral, totalled \$11.4 million as at December 31, 2005 (2004: \$11.5 million). Vancity manages this credit risk by dealing with creditworthy counterparties and setting specific limits for investments with those counterparties, which are reviewed on a regular basis.

VANCOUVER CITY SAVINGS CREDIT UNION

## Notes to the Consolidated Financial Statements (continued)

For the Year Ended December 31, 2005

**14. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The following represents the fair values of on and off-balance sheet financial instruments of Vancity. The value of intangibles such as long-term member relationships is not clearly determinable. Hence these items are not included in the fair value amounts.

While the fair value amounts are intended to represent estimates of the amounts at which these instruments could be exchanged in a current transaction between willing parties, many of Vancity's financial instruments lack an available trading market. Consequently, the fair values presented are estimates derived using present value and other valuation techniques and may not be indicative of the net realizable values.

Due to the judgement used in applying a wide range of acceptable valuation techniques and estimates in calculating fair value amounts, fair values are not necessarily comparable among financial institutions. The calculation of estimated fair values is based on market conditions at a specific point in time and may not be reflective of future fair values.

	2005			2004		
	Book Value	Fair Value	Fair Value Favourable (Unfavourable)	Book Value	Fair Value	Fair Value Favourable (Unfavourable)
(thousands of dollars)						
<b>Assets</b>						
Cash and cash equivalents	\$ 114,904	\$ 114,904	\$ -	\$ 151,768	\$ 151,768	\$ -
Deposits and securities	1,425,196	1,429,841	4,645	1,562,678	1,571,128	8,450
Loans	9,984,474	9,975,929	(8,545)	8,535,816	8,621,917	86,101
Other assets	103,861	103,861	-	99,604	99,618	14
<b>Liabilities</b>						
Deposits	10,558,155	10,543,402	14,753	8,950,835	8,983,333	(32,498)
Loans payable	458,419	458,414	5	813,768	813,728	40
Other liabilities	241,442	241,442	-	234,618	234,618	-
<b>Derivative financial instruments</b>	<b>3,910</b>	<b>6,541</b>	<b>2,631</b>	2,750	6,231	3,481
<b>Total fair value adjustment</b>			<u>\$ 13,489</u>			<u>\$ 65,588</u>

Interest rate sensitivity is the main cause of changes in the fair values of Vancity's financial instruments. The book values are generally not adjusted to reflect the fair value, as it is Vancity's intention to realize their value over time by holding them to maturity.

## Notes to the Consolidated Financial Statements (continued)

For the Year Ended December 31, 2005

**15. CONCENTRATIONS OF CREDIT RISK**

Concentrations of credit risk exist if a number of borrowers are engaged in similar economic activities or are located in the same geographic region, and indicate the relative sensitivity of Vancity's performance to developments affecting a particular segment of borrowers or geographic region.

Geographic credit risk exists for the Credit Union due to its primary service area being generally in the Lower Mainland of British Columbia and surrounding areas. As well, Vancity's principal subsidiary, Citizens Bank of Canada, operates primarily in British Columbia and Ontario. To reduce the impact of the geographic credit risk, Vancity has insured approximately 31% of its residential mortgages.

**16. COMMITMENTS AND CONTINGENCIES**

## Credit Commitments

The following amounts represent the maximum amount of additional credit that Vancity could be obligated to extend. These amounts are not necessarily indicative of credit risk as many of these arrangements will expire or terminate without being utilized.

(thousands of dollars)	2005	2004
Undrawn lines of credit	<b>\$ 1,796,292</b>	\$ 1,771,594
Commitments to extend credit	<b>600,116</b>	398,825
Undrawn credit on credit cards issued	<b>645,070</b>	483,842
Documentary letters of credit	<b>6,444</b>	8,630
	<b>\$ 3,047,922</b>	\$ 2,662,891

## Deposit Commitments

Under governing legislation, Vancity maintains, for liquidity purposes, deposits with Credit Union Central of B.C. (CUCBC). As at December 31, 2005, Vancity has made Canadian dollar deposit commitments of approximately \$446 million with CUCBC. These commitments are at fixed rates ranging from 3.13% to 5.94% with terms of six months to two years and maturity dates extending to 2010. Vancity has also made US dollar deposit commitments of approximately US\$62 million with CUCBC. These commitments are at fixed rates ranging from 4.19% to 4.83% with terms of one to two years and maturity dates extending to 2008.

## Lease Commitments

Vancity has leases on certain branch premises for terms extending to 2016. The future minimum lease payments for each of the next five fiscal years and thereafter are as follows (thousands of dollars):

2006	\$ 8,068
2007	7,254
2008	6,548
2009	4,204
2010	3,156
2011 and thereafter	7,409
	<u>\$ 36,639</u>

## Pledged Assets

In the normal course of business, Vancity pledges its assets as security for liabilities. Standby credit facilities of \$1,140 million of which \$245 million in demand loans and banker's acceptances have been utilized, are secured by mortgages and securities with a carrying value of \$887 million. Vancity also holds \$31 million in clearing facilities.

Vancity is also required to hold a credit facility with Credit Union Central of B.C. as security for issuing bearer deposit notes (BDNs). At December 31, 2005, Vancity held a credit facility of \$300 million to be used for BDN liquidity purposes only.

## Guarantees

As part of its regular operations, Vancity issues performance guarantees for its development projects. At December 31, 2005, Vancity has a guarantee with the City of Victoria in the amount of \$23.9 million.

## Contingencies

In the ordinary course of business, Vancity has legal proceedings brought against it and provisions have been included in liabilities where appropriate. It is the opinion of management that final determination of these claims will not have a material adverse effect on the financial position or the earnings of Vancity.

## VANCOUVER CITY SAVINGS CREDIT UNION BOARD OF DIRECTORS

Elain Duvall, Chair  
 Reva Dexter, Vice-Chair  
 Doreen Braverman  
 Ian Gill  
 Cheeying Ho  
 Catherine McCreary  
 Patrice Pratt  
 Bruce Ralston  
 Shauna Sylvester

The seven standing committees of the Board of Directors of Vancity and their responsibilities are listed below.

**The Administration Committee** acts on all matters specifically delegated to it by the Board and may also initiate matters for approval by the Board.

Members at December 31, 2005  
 Reva Dexter, Chair  
 Patrice Pratt, Vice-Chair  
 Doreen Braverman, Ian Gill, Cheeying Ho

**The Audit Committee** is ultimately responsible for the oversight of the design and implementation of internal controls to support the risk management framework, the integrity of financial reporting, and compliance with financial regulatory matters.

Members at December 31, 2005  
 Catherine McCreary, Chair  
 Shauna Sylvester, Vice-Chair  
 Doreen Braverman, Cheeying Ho

**The Community Partnership Committee** reviews funding applications from non-profit community organizations and makes funding decisions.

Members at December 31, 2005  
 Patrice Pratt, Chair  
 Catherine McCreary, Vice-Chair  
 Elain Duvall



Board of Directors, from left to right:

(Standing) Shauna Sylvester, Cheeying Ho, Ian Gill, Elain Duvall, Bruce Ralston, Patrice Pratt.  
 (Seated) Doreen Braverman, Reva Dexter, Catherine McCreary.

**The Conduct Review Committee** is ultimately responsible for oversight of protection of Vancity's reputation, and fulfillment of regulatory requirements.

Members at December 31, 2005  
 Shauna Sylvester, Chair  
 Reva Dexter, Vice-Chair,  
 Bruce Ralston

**The Financial Policy Committee** provides oversight of credit and market risk management activities and matters of a financial policy nature.

Members at December 31, 2005  
 Bruce Ralston, Chair  
 Shauna Sylvester, Vice-Chair  
 Doreen Braverman, Elain Duvall, Ian Gill

**The Governance Committee** assists the Board in establishing practices to fulfill its oversight responsibilities and to hold directors and Board committees accountable in fulfilling their duties.

Members at December 31, 2005  
 Elain Duvall, Chair  
 Reva Dexter, Vice-Chair  
 Patrice Pratt

**The Social Audit Committee** recommends to the Board policies and practices relating to the social audit process, including external verification and external reporting.

Members at December 31, 2005  
 Ian Gill, Chair  
 Reva Dexter, Catherine McCreary,  
 Dave Mowat (Mgmt), Ian Warner (Mgmt)  
 George Scott (Mgmt), Johan Lemmer (Mgmt),  
 Grace Pulver (Mgmt), Mobina Jaffer (Citizens Bank Director)

For more information on Board committees, please call the Governance department at 604 877 6549 or e-mail [board\\_governance@vancity.com](mailto:board_governance@vancity.com). For information on Board public profile activities, please call the office of the CEO at 604 877 7663 or email [board\\_directors@vancity.com](mailto:board_directors@vancity.com).

## **VANCITY CREDIT UNION**

Vancity Centre  
183 Terminal Avenue  
Vancouver, BC V6A 4G2  
604 877 7000 or 1 888 Vancity  
vancity.com

## **VANCITY SENIOR LEADERSHIP TEAM**

### **Senior Corporate Group**

Dave Mowat  
Chief Executive Officer

Chris Dobrzanski  
Senior Vice-President, Risk Management  
and Operations

George Scott  
Senior Vice-President, Strategic Planning  
and Partnership

Ian Warner  
Chief Operating Officer

Johan Lemmer  
Vice-President, Finance

Rowena Liang  
Chief Information Officer

Paula Martin  
Vice-President, Public Affairs and Corporate  
Communications

Grace Pulver  
Vice-President, Human Resources

Fay Booker  
Advisor, Governance and Corporate Risk  
Management

*Vacant*  
Vice-President, Community Leadership

### **Senior Operations Group**

Ian Warner  
Chief Operating Officer

Neil Brown  
Vice-President, Channel Management and  
Operational Initiatives

Barry Fenton  
Senior Vice-President and Chief Credit Officer,  
Citizens Bank

Kari Grist  
Vice-President, Marketing

Karen Hoffman  
Vice-President, Investments and Insurance

Lydia Johnson  
Vice-President, Sales and Service

Kevin Zakus  
Vice-President, Business Banking

*Vacant*  
CEO, Citizens Bank

## **SUBSIDIARIES**

### **CITIZENS BANK OF CANADA**

#### **Vancouver Office**

Suite 401 - 815 West Hastings Street  
Vancouver, BC V6C 1B4  
**P** 604 682 7171  
**F** 604 708 7790  
citizensbank.ca

#### **Service Centre**

PO Box 13133, Station Terminal  
Vancouver, BC V6B 6K1  
**P** 604 708 7800 or 1 888 708 7800  
**F** 604 708 7858 or 1 888 708 7858

### **Toronto Office**

Suite 700 - 184 Front Street  
Toronto, ON M5A 4N3  
**P** 416 868 6822 or 1 888 887 9855  
**F** 416 868 8480

### **Calgary Community Banking Centre**

Suite 150 - 505 Third Street S.W.  
Calgary, AB T2P 3E6  
**P** 403 266 7321  
**F** 403 262 8575

### **Waterfront Community Banking Centre**

815 West Hastings Street  
Vancouver, BC V6C 1B4  
**P** 604 708 7876  
**F** 604 708 7882

### **Board of Directors**

Dave Mowat, Chair  
Chris Dobrzanski  
Elain Duvall  
Senator Mobina Jaffer  
Essop Mia  
Terry Wong  
Alexandra Wilson  
Roger Woodward

### **Senior Management**

Terry Wong  
Acting President and Chief Executive Officer  
  
Barry Fenton  
Senior Vice-President and Chief Credit Officer  
  
Bill Jamieson  
Vice-President, Marketing and CSR  
  
Murray Williamson  
Vice-President, Business Banking

**INVENTURE SOLUTIONS INC.****Board of Directors**

Dave Mowat, CEO, Vancity Credit Union  
Rowena Liang, CIO, Vancity Credit Union

**Senior Management**

Rowena Liang  
Chief Executive Officer

Tony Fernandes  
Vice-President, IT Operations

Andy Jones-Cox  
Vice-President, Business Systems

Garry Smith  
Vice-President, Technology Services

**INHANCE INVESTMENT MANAGEMENT INC.**

(formerly Real Assets)

Suite 1200 – 900 West Hastings Street  
Vancouver, BC V6C 1E5  
604 975 3300  
inhance.ca

**Board of Directors**

Mary Taylor, Chair  
Kerry Ho  
Johan Lemmer  
Catherine McCreary  
Paul Savage  
Joel Solomon

**Senior Management**

Kerry Ho  
Chief Executive Officer

**VANCITY CAPITAL**

Suite 700 – 815 West Hastings  
Vancouver BC V6C 1B4  
604 877 6565  
vancitycapital.com

**Board of Directors**

David Jiles, Chair  
John Delf  
Chris Dobrzanski  
James Hughes  
Essop Mia  
Jonathon Rhone  
Coro Strandberg  
Shauna Sylvester

**Senior Management**

Lee Davis  
President and Chief Executive Officer

**VANCITY ENTERPRISES LTD.**

Suite 510 – 815 West Hastings Street  
Vancouver, BC V6C 1B4  
604 877 7610  
vancity.com

**Board of Directors**

Bruce Ralston, Chair  
Cheeying Ho  
Jack Allard  
Barry Fenton  
Linda Ross  
Greg McDade  
Bev Nielsen  
Ron Yuen

**Senior Management**

Jacques Khouri  
President and Chief Executive Officer

**VANCITY INSURANCE SERVICES LTD.**

183 Terminal Avenue  
Vancouver, BC V6A 4G2  
604 877 7400  
vancityinsurance.com

**Senior Management**

Terry Taciuk  
President

**VANCITY INVESTMENT MANAGEMENT LTD.**

Suite 300 – 900 West Hastings Street  
Vancouver, BC V6C 1E5  
604 871 5355  
vcim.ca

**Senior Management**

Allan Pankratz  
Vice-President

**ASSOCIATED ORGANIZATIONS****VANCITY COMMUNITY FOUNDATION**

Established in 1989 by Vancity, the Vancity Community Foundation is guided by its own Board of Directors and operates at arm's length from the credit union.

Suite 510 – 815 W. Hastings Street  
Vancouver, BC V6C 1B4  
604 877 7647

**Board of Directors**

Brian Nasu, Chair  
Lisa Barrett, Vice-Chair  
Lucy Alderson  
Neil Brown  
Ivan Gasoi  
Kathryn Molloy  
Bruce Ralston  
Heather Tremain  
Peter ter Weeme  
Fay Weller  
Franko Zaurrini

**Senior Management**

Ian Mass  
Executive Director

## COMMUNITY BRANCHES

### Abbotsford

32675 South Fraser Way V2T 1X9  
Holly Harding, Branch Manager

### Burnaby

Brentwood  
106 - 1901 Rosser Avenue V5C 6R6  
Maria Michayluk, Branch Manager

North Burnaby  
4302 Hastings Street V5C 2J9  
Josie Romeo and Sheryl Ries, Branch  
Managers (effective May 1, 2006)

North Road & Gatineau  
3977 North Road V3J 1S2  
Margaret Gardiner, Branch Manager

South Burnaby  
5064 Kingsway V5H 2E7  
Peter Unadkat, Branch Manager

Station Square  
120A - 6100 McKay Avenue V5H 2W7  
Jas Parmar, Branch Manager

### Chilliwack

45617 Luckakuck Way V2R 1A3  
Ben Letkeman, Senior Branch Manager

### Coquitlam

20 - 2991 Lougheed Highway V3W 6J6  
Tom Hancock, Branch Manager

Maillardville  
1013 Brunette Avenue V3K 1E6  
Tony Ciulla, Branch Manager

### Langley

100 - 20055 Willowbrook Drive V2Y 2T5  
Mary Pattison, Branch Manager

### Maple Ridge

22824 Lougheed Highway V2X 2V7  
Vanita Dennis, Branch Manager

### Mission

32555 London Avenue V2V 6V9  
Michael Spuls, Branch Manager

### North Delta

7211 - 120 Street V4C 6P5  
Karm Sedhu, Branch Manager

### North Vancouver

1290 Marine Drive V7P 1T2  
Greg Letham, Senior Branch Manager

Lynn Creek  
1370 Main Street V7J 1C6  
Arlene Urlacher, Branch Manager  
(effective May 1, 2006)

Westview  
712, 2601 Westview Drive V7N 3X4  
Greg Letham, Branch Manager

### Pitt Meadows

750 - 19800 Lougheed Highway V3Y 2W1  
Jayne Perrault, Branch Manager

### Port Coquitlam

7100 - 2850 Shaughnessy Street V3C 6K5  
Sonny Neilson, Branch Manager

North Side  
130 - 2325 Ottawa Street V3B 8A4  
Sonny Neilson, Branch Manager

### Port Moody

Heritage Mountain  
140 - 221 loco Road V3H 4H2  
Tony Ciulla, Branch Manager

### Richmond

5900 No 3. Road V6X 3P7  
Mike Matsuo, Branch Manager

### Surrey

Newton  
7555 King George Highway V3W 5A5  
Jodh Dhaliwal, Branch Manager

Guildford  
108 - 15175 101 Avenue V3R 7Z1  
Duncan McGuffie, Branch Manager

Surrey City Centre  
10293 King George Highway V3T 2W6  
Jasvir Kheleh, Branch Manager

Cedar Hills  
12820 - 96 Avenue V3V 6V9  
Nalini Bhagat, Branch Manager

### Vancouver

Vancity Centre  
183 Terminal Avenue V6A 4G2  
Praveen Sidhu, Branch Manager

Victoria Drive  
5590 Victoria Drive V5P 3W1  
Elaine Kennedy, Senior Branch Manager

Hastings  
2510 East Hastings Street V5K 1Z3  
Lily Wong, Branch Manager

Kitsilano  
3395 West Broadway V6R 2B1  
Ross Lambert, Branch Manager

Fraser Street  
6288 Fraser Street V5W 3A9  
Gerry Collins, Branch Manager

Fairview  
501 West 10 Avenue V5T 2A3  
Mohamed Ladak, Senior Branch Manager  
(effective May 1, 2006)

## COMMUNITY BRANCHES cont'd

Main Street  
4205 Main Street V5V 3P9  
Jenn Fahey, Branch Manager

Downtown  
898 West Pender Street V6C 1J8  
Jan Dean, Branch Manager

4th Avenue  
2233 West 4 Avenue V6K 1N9  
Sarah Shellard, Branch Manager

Commercial Drive  
1675 Commercial Drive V5L 3Y3  
Bob Craig, Branch Manager

Collingwood  
3305 Kingsway V5R 5K6  
Patricia Sonier, Branch Manager

Marpole  
8615 Granville Street V6P 5A2  
Phelan Jung, Branch Manager

Kerrisdale  
2380 West 41 Avenue V6M 2A4  
Kristin Yakumo, Branch Manager

Point Grey  
4545 West 10 Avenue V6R 4N2  
Franko Zaurrini, Branch Manager

Chinatown  
188 East Pender Street V6A 1T3  
Grace Wong, Branch Manager

Oakridge  
5594 Cambie Street V5Z 3Y5  
Ritu Linfoot, Branch Manager

Dunbar  
4445 Dunbar Street V6S 2G4  
Franko Zaurrini, Branch Manager

West End  
1680 Robson Street V6G 1C7  
Kathryn Fitzgerald, Branch Manager

**Victoria**  
3075 Douglas Street V8G 1S6  
Charleen Dunn, Branch Manager

**West Vancouver**  
1402 Marine Drive V7T 1B7  
Cherie Devisser, Branch Manager

**White Rock/South Surrey**  
Semiahmoo  
104 - 1790 152 Street V4A 7Z7  
Harjit Chima, Manager

**National Contact Centre**  
Jean-Marc Handfield, Director

**Regional Directors**  
Debbie Bywater  
Ken Fuller  
David Perri  
Keith Tongue (effective May 1, 2006)  
Caroline Wedge (effective May 1, 2006)

**Director, Finance and Controller**  
Samson Lim

**Legal Advisors**  
McCarthy Tétrault  
Fasken Martineau DuMoulin  
Alexander, Holburn, Beaudin & Lang

**Auditors**  
Grant Thornton LLP

## RECOGNITION OF PAST CHAIRS

2006 marks Vancity's 60th Anniversary. Our Board of Directors, and particularly those who have served as Chair, have been instrumental in creating the organization Vancity is today. We thank them for their energy and leadership over the last 60 years.

Year	Chair
1946	J.F. Fortunum
1947	E.A.J. Roberts
1948 – 51	G.M. Payton
1952	N. MacLean
1953 – 58	T.H. Wiltshire
1959 – 62	G.M. Payton
1963 – 64	A. Gladu
1965 – 66	L. Widdifield
1967 – 69	S. Parsons
1970 – 71	A. Gladu
1972 – 73	J.H. Lucas
1974 – 75	S.W. Parsons
1976 – 77	D.G. Campbell
1978 – 79	M. Betts
1980	Don Campbell
1981 – 82	Sandra Sutherland
1983	Catherine Robertson
1984	Stan Parsons
1985 – 86	David Levi
1987	Joy Leach
1988 – 90	Bob Williams
1991 – 92	Tim Louis
1993 – 94	Shirley Chan
1995 – 96	Francesca Zumpano
1997 – 99	Coro Strandberg
2000 – 01	Greg McDade
2002 – 03	Bruce Ralston
2004 – 05	Elain Duvall

## FEEDBACK?

We'd like to know what you think of this annual report. Let us know at [vc\\_editor@vancity.com](mailto:vc_editor@vancity.com) or 604 877 7000.



**Vancity**

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